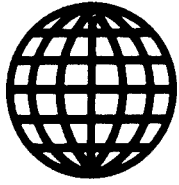


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# ***JPRS Report***

## **Soviet Union**

***USA: ECONOMICS,  
POLITICS, IDEOLOGY***

No 7, July 1987

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# **Soviet Union**

## **USA: Economics, Politics, Ideology**

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## USA: ECONOMICS, POLITICS, IDEOLOGY

No 7, July 1987

[Except where indicated otherwise in the table of contents the following is a complete translation of the Russian-language monthly journal *SSHA: EKONOMIKA, POLITIKA, IDEOLOGIYA* published in Moscow by the Institute of U.S. and Canadian Studies of the USSR Academy of Sciences.]

### Review of Gaddis Report on Maintaining Peace

18060011a Moscow *SSHA: EKONOMIKA, POLITIKA, IDEOLOGIYA* in Russian No 7, Jul 87 (signed to press 18 Jun 87) pp 3-12

[Article by A.A. Kokoshin and A.V. Kortunov: "Stability and Changes in International Relations (Comments on Professor John Gaddis' Report)"]

[Text] The problems of war and peace have always been the central concern of political analysts; it would be difficult to think of a single Soviet or Western political scientist or expert on international affairs who has not discussed them to some extent in his works. Until recently, however, these experts—both in our country and abroad—focused their attention almost exclusively on war and rarely discussed peace. The very concept of peace was and is usually interpreted as the simple absence of war and has been analyzed from the standpoint of the developments and tendencies undermining it.

There is no question that this is a valid approach, especially today, now that the problem of preventing a nuclear war, strengthening international security, and curbing the arms race has become the central issue of world politics and now that the resolution of this problem is an essential condition for the resolution of other urgent problems. At the same time, Spinoza's famous statement that "peace is not the mere absence of war," that this concept has a great deal of positive meaning and needs to be studied in depth and in its entirety, is more relevant today than ever before. In this context, "The Long Peace: Elements of Stability in the Postwar International System,"<sup>1</sup> a report by a leading American expert on the history of U.S. foreign policy and the theory of international relations, Ohio State University Professor John L. Gaddis, seems quite significant.

This liberal bourgeois researcher is not concerned with the factors that undermine international stability or the ways of averting nuclear war, but with the reason why mankind, in spite of all the clashes and conflicts in the postwar world, has still not been annihilated by a nuclear holocaust. In other words, Gaddis analyzes not the causes of war, but the causes of sustained peace.

We cannot say that he idealizes the contemporary international system: The report stipulates that many important problems in world politics have not been solved, there have been numerous bloody regional conflicts in the last four decades, and the main members of this system are still in a state of tense political confrontation. Nevertheless, Gaddis says, the contemporary international system could be called quite stable.<sup>2</sup>

What are, in his opinion, the reasons for this stability? Gaddis responds to this question with several arguments that fall into two basic categories. First of all, the stability of the postwar system is a result of its **bipolar structure**. In contrast to other prominent bourgeois political scientists, Gaddis believes that the bipolar system is more stable in principle, contrary to "geometric" logic, than any type of multipolar system, and primarily because this simple structure facilitates the foreign policy planning of the members of this system—in other words, it is more controllable. "The system which had taken shape by 1945," Gaddis notes, "was fairly simple and did not require a high level of governmental wisdom for its regulation. The large multipolar systems of the 19th century collapsed primarily because they were too complicated: Their successful functioning required statesmen of the caliber of Metternich or Bismarck, and when they were gone these systems began to fall apart" (pp 108-109).

In addition to this, Gaddis stresses, the relative simplicity of the bipolar system secures a higher level of stability in military-political alliances. NATO, for example, has not only existed far longer than all of the coalitions and groups of the years between the wars but is also comparable to the most stable alliances of the years prior to World War I (Germany and Austro-Hungary, France and Russia). The reasons for this stability, according to Gaddis, are fairly obvious: Military-political alliances are the result of feelings of insecurity and a sense of external danger. In a multipolar system the source of external danger can change with each change in the political situation, and alliances therefore cannot be stable, whereas the source of danger—real or imaginary—in the bipolar system is always clearly defined as the only possible source, and this secures the stability of alliances, Gaddis explains.

In addition to this, the global nature of bipolar confrontation makes various regroupings of forces on the regional level more acceptable, in Gaddis' opinion, to the main members of the system—the USSR and the United States. "The fact that a state as large as China could change its affiliation twice during the cold war without having any dramatic effect on relations between the superpowers provides some idea of the level of stability secured by the bipolar structure," Gaddis writes. "This becomes clear when this situation is compared with the degree to which relations between the great powers just before World War I were affected by

such a minor event as Austro-Hungary's annexation of Bosnia and Herzegovina or with, for example, the political significance of the question of Moroccan control" (p 110).

Therefore, Gaddis says, although alliances in the bipolar system are more stable and durable, it is precisely this general stability that makes the transfer of individual countries from one coalition to another more tolerable for the main members.

The second group of reasons for the stability of the contemporary international system Gaddis discusses is connected with the **content of relations** within it. "Stability in international relations," he notes, "is only partly a function of the structure and also depends on the conscious behavior of the states making it up" (p 120).

The appearance and development of nuclear weapons, in his opinion, were particularly significant in this context. Prior to the nuclear age the balance of advantages and disadvantages could fluctuate dramatically when decisions had to be made on matters of war. For this reason, war remained a means of reasonable diplomacy and its acceptability was determined in each specific case by "calculations showing that the possible advantages of war outweighed the unavoidable losses connected with it" (p 120). Nuclear weapons became the factor which dramatically heightened the disadvantages of a possible conflict and effectively nullified the possibility of any resulting gains.

Besides this, nuclear weapons immediately drew a boundary between regional and global conflicts, Gaddis believes. Prior to World War I and even World War II there were no mechanisms or principles capable of keeping a regional conflict from growing into a global one (it is no coincidence that both world wars began as regional conflicts). In the postwar world, on the other hand, the danger of the possible use of nuclear weapons has forced the superpowers to do everything within their power to prevent the kind of escalation of regional conflicts that would lead to a nuclear confrontation.

"Therefore, I believe that the development of nuclear weapons has had a stabilizing effect in general on the postwar international system," Gaddis concludes. "It has counteracted the tendency toward escalation that led to war in the past. It has had a sobering effect on statesmen at various levels of responsibility and authority. Each day it has faced national leaders with the prospect of what a war could mean, essentially the prospect of their own death. And this is not such a bad thing for all of those who are seeking ways of averting war" (p 123).

What kind of future does Gaddis foresee for the postwar international system? Will it retain its present structure for another few decades or is it doomed to collapse in the near future? Gaddis avoids answering this question

directly. "Predicting how long the current era of Soviet-American stability will last calls for extreme caution," he writes. "Of course, it is easy to imagine events that might undermine this stability in some way or another: Internal processes in one of the countries could have the most unpredictable effect on foreign policy; the actions of third parties could involve the superpowers in a conflict with each other against their will; there is always the risk of error or accident; the possibility of a conflict due to incompetent political leadership cannot be excluded" (p 141).

Under these conditions, Gaddis concludes his report, the political leaders of the United States and the USSR will need the usual caution and responsibility both powers have demonstrated during the four postwar decades and also the realization that their destinies are connected indissolubly. Any disruption of the existing bipolarity as a result of the dramatic weakening of one side or the emergence of new "power centers" could have a dangerous destabilizing effect on the world situation. For this reason, each of the sides in the bipolar system, Gaddis believes, has an interest not only in the physical existence of its partner and adversary, but also in its strength and continued development. Any changes in the structure of the international system should be slow and gradual, because no political advantage connected with its restructuring can outweigh the dangers of its destabilization.

These are the basic premises of John Gaddis' report. After looking at the questions it raises, we would like to make a few observations.

It is striking that Gaddis, just as many of his fellow bourgeois theorists of international relations, examines the contemporary international system only from the structural and functional standpoint, effectively excluding the factor of the system's development from his analysis. The report suggests that world politics today are the same in general as they were in 1945. It is a well-known fact, however, that extremely important social-class, economic, and political processes after the war changed the content and structure of international relations. The worldwide socialist community of states came into being, the colonial empires disintegrated, and the national liberation movement has grown strong. The subjects of world politics have increased in number: New states and TNC's have come into being and public organizations have gained more influence. The interdependence of participants in world politics has grown stronger (and this is not only economic, military, and political interdependence, but also ecological and even spiritual). The most important socioeconomic and political trends in the development of individual countries are undergoing a process of internationalization and the boundary between foreign and domestic policy is being erased by the quicker dissemination and increased volume of information. Any analysis of the contemporary

international system would be oversimplified at best without consideration for all of these processes and for their stabilizing and destabilizing effects.

The concept of bipolarity, which Gaddis makes the basis of his research, also needs clarification. If he is referring to the socioeconomic bipolarity of today's world and to the confrontation of two opposing social systems, this bipolarity is a product of 1917 rather than 1945 and cannot be a distinctive feature of postwar international relations. If the term bipolarity, on the other hand, is used to refer to the political confrontation between the USSR and the United States in the postwar world, it is a significant point that although it is ultimately a reflection of the objective realities of contemporary history, it is also largely due to the subjective aims and beliefs of U.S. ruling circles and their efforts to make confrontation with the USSR the cornerstone of American foreign policy. In other words, socioeconomic bipolarity does not necessarily presuppose political bipolarity, because the main conflict of our era, the conflict between socialism and capitalism, is not being resolved within the sphere of international relations, but within the sphere of the internal social development of each state.

Of course, it would be ridiculous to deny the fact that Soviet-American relations have played and will continue to play an extremely important role and that they are much more significant than any other bilateral relationship between states in today's world. There are several reasons for this: The USSR and the United States are the two strongest powers in today's world from the economic, political, and military standpoint and they have the greatest potential to influence the course of world events; they play the leading role in the largest military-political alliances—the Warsaw Pact and NATO; these two powers have the broadest interests, extending to virtually all parts of the planet; and so forth. The special role of the USSR and the United States in world affairs, however, should not give them any advantages over other countries. The stability of the international system cannot and must not be secured by a Soviet-American condominium, an idea which can be read between the lines of Gaddis' report. The development of Soviet-American relations should not be directed against third countries and their interests; the special role of the USSR and the United States signifies, above all, their responsibility for the maintenance of peace, the reinforcement of international security, and the cessation of the arms race.

In principle, we could agree with Gaddis that the development of the contemporary international system in the direction of greater decentralization and less rigidity (as a result of the emergence of new "power centers," the intensification of conflicts between Western countries, the increasing differentiation of developing states, etc.) could give rise to new conflicts and complicate their resolution. Gaddis forgets, however, that this kind of development is essentially a democratization of international relations, which will have stabilizing as well as destabilizing effects. What is more, the former will obviously outweigh the latter.

Let us look, for example, at the heightened participation of social movements and public opinion in the planning and pursuit of the foreign policy line of any of these countries. Is this good or bad from the standpoint of international stability? If we examine this from Gaddis' vantage point, it appears to be a destabilizing factor, capable of complicating foreign policy planning, restricting the maneuverability of states, and diminishing the possibility of controlling world events. Strictly speaking, broad public participation in foreign policy activity is incompatible in general with the "balance of power" policy, which guaranteed stability in the traditional international system. After all, shrewd and cynical calculations, subtle diplomatic moves, and paradoxical and immoral reversals in international affairs are immutable attributes of the classic "balance of power" and are accessible only to the statesman who is completely free of public control and can manipulate his "party" like a chess player guided only by the unwritten rules of the game and his own ideas about national interests.

But this is exactly the point, that the contemporary international system can no longer be assessed according to the rules of the traditional "balance of power." The increasing participation of the public in world politics is creating a fundamentally new infrastructure of international relations and this is becoming an important stabilizing factor. Could we say that the public has not had a deterring effect on the fans of military adventures and the supporters of the arms race? Is it possible to judge the increasingly important role of the multimillion-strong movement against war and against nuclear weapons only by the number of difficulties this movement creates for various politicians?

Or let us look at the process of decolonization, which Gaddis also categorizes as a destabilizing factor. An increase in the number of subjects in the international system undermines its bipolarity, expands the possibilities for various regional and global regroupings dramatically, and creates new bridgeheads of confrontation.

This seems to imply that the collapse of the European colonial empires was a negative factor from the standpoint of international stability because it promoted the disintegration of the entire system. It is true that there are many more conflicts, clashes, and local wars in the zone of the former colonial empires today than there were prior to their collapse (but probably no more than there were during the period of their establishment). At the same time—and this fact is of definite importance—the organizing influence of colonialism was apparent only on the level of specific subsystems of international relations—i.e., on the level of "intra-imperial" relations. In the global international system as a whole, however, stability was at an extremely low level because the leading imperialist powers were waging fierce battles over the repartition of a world already divided into colonies.

For this reason, although there is no question that the process of decolonization had a definite destabilizing effect on the regional level, it became an important stabilizing factor on the level of the global international system and heightened the overall stability of the system considerably. By the same token, stability was also enhanced by the collapse of aggressive military-political blocs, such as SEATO and CENTO, in spite of the fact that they had exerted some organizing influence in international relations in Southeast Asia and Southwest Asia respectively.

Gaddis' observations on the role of nuclear weapons warrant special consideration. Common sense suggests that the author of the report is right and that nuclear weapons are an important stabilizing factor because they have made such major changes in the balance of war-related gains and losses. In other words, when war ceases to be a reasonable means of attaining political objectives, it must be rejected.

It appears that Gaddis' line of reasoning here will not stand up to criticism either. He says that war can only be a reasonable political instrument when the possible advantages of a war (political, economic, territorial, etc.) considerably outweigh the unavoidable costs of warfare. Gaddis arbitrarily suggests, however, that the balance of gains and losses can be calculated objectively and accurately by a statesman making plans for aggression. Past experience tells us, however, that calculations of this kind have always been quite subjective and that the mere illusion of reasonable action has sometimes been enough to substantiate aggression. Strictly speaking, as soon as capitalism entered the imperialist stage, war ceased objectively to be a reasonable means of diplomacy because the costs of warfare—human losses, material destruction, internal political destabilization, etc.—began to outweigh the possible gains of even a successful military operation. Nevertheless, subjective ideas about reasonable behavior made two world wars possible.

Of course, the creation of nuclear weapons changed the balance of losses and possible gains even more. Losses increased colossally while possible gains were minimized. Nuclear weapons also enhanced the factor of uncertainty dramatically. Whereas any statesman or general of the past could, even with all of the possible errors and miscalculations, make an attempt to weigh the consequences of a battle, foresee the outcome of projected operations to some extent and, finally, stop military operations, the use of nuclear weapons would make these attempts obviously futile. Today's aggressor is essentially faced by the prospect of a hypothetical nuclear war with absolutely unpredictable consequences, and the very attempt to calculate the exact balance of gains and losses is therefore completely unproductive.

But does this mean that this unpredictability can be a reliable guarantee against the start of a war? The history of the first postwar decades provides a negative response to this question. We know, for example, that the Truman

Administration once drew up an entire series of plans for nuclear warfare against the USSR without having any kind of reliable data on the possible climatic, ecological, geophysical, and other consequences of this kind of warfare. The factor of uncertainty did not play a stabilizing role in this case. On the contrary, it played a destabilizing role: The losses incurred by the United States as a result of a hypothetical nuclear war were arbitrarily reduced to the level of "acceptable" losses, while gains were elevated to the level of a military and political victory. Furthermore, the very fact that the United States had a nuclear monopoly in the first postwar years promoted the growth of adventurism in American foreign policy and the destabilization of the entire international situation.

Therefore, nuclear weapons (just as any other kind of weapons) are not a factor of political deterrence in themselves and, consequently, cannot be a factor of international stability. There can be no talk of stability—even with the greatest reservations—unless the leaders of the nuclear powers do not have even the illusion of a possible victory in a nuclear conflict and the possible attainment of some kind of reasonable political goals with the aid of nuclear war. As long as this illusion and the fear of attack exist, nuclear weapons will be an extremely dangerous destabilizing factor.

Obviously, it is impossible to guarantee a lack of illusions and fears and this is why the international situation cannot be considered sufficiently stable in principle as long as nuclear weapons exist. The radical reduction of nuclear arms during successive stages of advancement toward a nuclear-free world, however, could establish the necessary conditions to minimize the validity of these illusions or fears. What are these conditions?

First of all, the political and military-strategic situation must be one in which neither side will have any incentive to use nuclear weapons first. Retaliation by the side subjected to aggression would exclude the possibility of the rational use of the results of a first strike.

The second condition is that neither side should be able to deliver a disarming first strike. In any kind of attack, the side subjected to aggression would retain the potential to inflict unacceptable and comparable damages on the aggressor.

The third condition is the impossibility of the unauthorized or accidental use of nuclear weapons, which presupposes the existence of reliable and survivable command, control and communication systems and missile warning systems on each side.

The accumulation and qualitative improvement of nuclear weapons are capable in themselves of heightening the theoretical probability of an effective disarming strike against the adversary and of increasing the danger of their accidental or unauthorized use. The deployment of antimissile space arms and antisatellite weapons in

addition to all of this would diminish the stability of the military-strategic balance. The threat to stability would also be increased by the development of conventional arms, because the newest of these are comparable to weapons of mass destruction. Besides this, the much longer range of conventional weapons means that the territory of an entire country, and not just its borders, could be encompassed immediately by active combat operations, and this is something that could not happen in the wars of the past.<sup>3</sup>

As far as the psychological deterrent connected with the existence of nuclear weapons is concerned, it obviously cannot be denied, but it is hardly wise to rely too much on this factor, as Gaddis and many of his colleagues do. Decisions on war and peace are not always dependent on the wishes of individual political leaders, and the logic of events is sometimes stronger than the logic of intelligent reasoning. The possibility of a war started by a miscalculation, a technical error, a misinterpretation of the potential adversary's actions or intentions, and so forth cannot be excluded either. And the very fact that nuclear war has been averted successfully for 40 years and that political crises have not been allowed to grow into a direct confrontation between the USSR and the United States does not give us any kind of guarantees for the future.

As far as the psychological impact is concerned, the idea of remaining nuclear hostages forever is an extremely depressing prospect. We must not forget that the existence of huge stockpiles of these weapons and the world public's growing realization of the danger of total annihilation traumatizes the psyche of colossal numbers of people each day and each hour. Psychiatrists, neuropathologists, and psychologists have reported a dramatic increase in neuroses in today's world; what is more, in their opinion, the arms race and the fear of nuclear war are the strongest factors creating particularly favorable conditions for the spread of neuroses. The threat posed to the human mind by the prospect of the annihilation of the human race is constantly growing. Under these conditions, the Soviet program for the complete elimination of nuclear arms by the end of this century and for the reduction of military potential to the level of reasonable sufficiency and the Soviet efforts to establish a comprehensive system of international security are of special importance.

The principle of reasonable sufficiency, which was substantiated in the political report of the Central Committee to the 27th CPSU Congress and was amplified in several subsequent speeches by M.S. Gorbachev, would serve as the conceptual basis for a stable military-strategic situation—in other words, it would strengthen the very stability to which Gaddis and many other Western liberal analysts refer. The Soviet concept of stability, just as Gaddis' concept, presupposes a relatively stable military-strategic balance between the

United States and the USSR and between NATO and the Warsaw Pact, but it regards this balance as something subject to change rather than as something immutable.

The principle of reasonable sufficiency presupposes, among other things, that the military actions of the sides will be conducted in such a way that neither side will have any grounds, even imaginary ones, to fear for its safety. In other words, the politico-psychological aspects of the interrelations of states in the security sphere are playing an increasingly important role along with material factors. Unfortunately, these aspects have still not been analyzed sufficiently.

The relative stability of the military-strategic balance could be the deciding factor here. After all, it means that, at any level of military confrontation, one side can afford to display unilateral restraint in the stockpiling of arms and still have enough weapons to repulse a possible threat (in cases involving conventional arms) or to deliver an effective retaliatory strike (in cases involving nuclear arms). This restraint, in turn, lowers the level of reasonable sufficiency for the second side, which then gains the opportunity to take steps similar to the steps taken by the first side and to go even further without worrying about undermining military-strategic stability. In this way, something like an escalation of unilateral or coordinated measures to limit military efforts would take place; the traditional mechanism of the arms race (action—reaction) would turn into its opposite, as if it had been reversed.

The implementation of the principle of reasonable sufficiency obviously presupposes a series of mutually acceptable nuclear arms reductions to the point of their complete elimination and the renunciation of all other weapons of mass destruction; it also presupposes radical quantitative, qualitative, and structural changes in armed forces and conventional arms. The Warsaw Pact countries believe that measures should be planned and taken within the near future to strengthen the confidence of the Warsaw Pact and NATO countries and all other European states that no surprise offensive operations will be launched against them. This is the purpose of the Warsaw Pact members' proposals with regard to the substantial reduction of the number of the tactical aircraft of both military-political alliances in Europe at the very beginning of the process of armed forces and conventional arms reduction and with regard to the reduced concentration of troops along the boundary separating these alliances.<sup>4</sup>

The continued implementation of the principle of reasonable sufficiency during the reduction and restructuring of military potential could lead to a situation in which each side is incapable of launching large-scale offensive operations and has only the ability to defend its territory effectively. The military doctrine, military strategy, and operational plans of each side should correspond to this and be of a strictly defensive nature.

This would obviously heighten the stability of the military-strategic balance and the stability of international, including intergovernmental, relations. The implementation of the principle of reasonable sufficiency and the reduction (and subsequent disappearance) of the nuclear factor would not (as Gaddis fears) return the system of international relations to the state of instability characteristic of the pre-nuclear era, when the prevailing principle in military matters was the belief that "a good offense is the best defense."

The proposal of the principle of reasonable sufficiency aroused great interest in the world, including several West European states and countries of the Asian-Pacific region. It was similar to the so-called alternative ideas of security recently proposed in the West. These concepts ("defensive defense," "non-provocative defense," etc.) envisage the renunciation of nuclear weapons, the prevention of an arms race in space, and radical quantitative and qualitative changes in conventional arms. They have become quite popular, for example, among the political opposition in Great Britain and the FRG, as well as in the Netherlands, Belgium, Denmark, and Norway. They are supported by, in particular, a large group of retired generals and admirals in the NATO countries.

Of course, we cannot completely exclude the possibility that the elimination of nuclear weapons will lead to certain difficulties. We can expect the aggravation of some regional conflicts and confrontations that are now being restricted by the fear of possible escalation. Mankind will have to learn to live in a nuclear-free world, and this learning process will be neither quick nor easy. It would be naive at best to assume that the principle of reasonable sufficiency will not be fiercely resisted by powerful political and social forces in the capitalist countries and that all statesmen will be able to give up any attempt to use military force for the attainment of foreign policy goals within the next decade or two. But keeping nuclear weapons for the purpose of restraining a few high-handed generals and politicians with adventurist ideas, which is what Gaddis is actually suggesting, is the same as putting all mankind behind bars for the purpose of isolating a handful of potential criminals.

Besides this, and Gaddis' report reaffirms this, today it is completely wrong to examine the problem of securing the stability of intergovernmental relations only with a view to military-political factors, not to mention only military-strategic parameters. This problem has extremely important politico-diplomatic, economic, ethical, cultural, and humanitarian aspects. Although today, in the present atmosphere of heightened international tension, matters of military policy are of special interest, we must not forget that they are primarily a product of the structure of political relations in the world. Positive changes in political relations between the leading subjects in the international system can make radical

changes in the basis on which any state assesses the overall military-strategic balance and determines the level of its own armed forces and arms.

This is why the Soviet Union is advocating the creation of a comprehensive system of international security, with political, economic, and humanitarian elements in addition to the military components. This kind of integral approach is an appropriate response to the present state of international relations.

The institution of a new approach to international security will be a long and complicated process and it will also be painful in many respects. It will call for active struggle by all peaceful and realistic forces and for the revision of many of the dogmas and stereotypes that have been decades or even centuries in the making. This, however, is the only way of guaranteeing survival under the conditions of the increasing interdependence of states and of securing normal conditions for the functioning of the international community. In this case, stability would be secured not by the artificial perpetuation of the sociopolitical status quo in the world, but by the adaptation of the structure and content of international relations to mankind's present level of socioeconomic, political, and spiritual development.

#### Footnotes

1. J. Gaddis, "Long Peace: Elements of Stability in the Postwar International System," *International Security*, Spring 1986, pp 99-142.

This was the main American report at the general conference on "The Future of Soviet-American Relations. The Lessons of 40 Years Without War" at the University of Texas in Austin on 3 and 4 April 1986. It was later published in the journal *International Security*. The conference was attended by such prominent American researchers as Professors E. Rostow, W. Rostow, R. Germain, and R. Bowie, President Ford's former National Security Adviser B. Scowcroft, and former State Department adviser H. Sonnenfeldt; the Soviet side was represented by Academician R.Z. Sagdeyev, Doctor of Historical Sciences A.A. Kokoshin, Doctor of Historical Sciences S.M. Rogov, Candidate of Technical Sciences A.A. Vasilyev, and Candidate of Juridical Sciences Yu.K. Shiyan.

2. Along with K. Deutsch and J. Singer, the renowned American experts on the theory of international relations, Gaddis defines stability as "the probability that the system will retain all of its fundamentally important features, that no one state will dominate it, that the majority of its members will continue to exist, and that a world war will not be started" (K. Deutsch and J. Singer, "Multipolar Power Systems and International Stability," in "International Politics and Foreign Policy: A Reader in Research and Theory," edited by J. Rosenau, rev. ed., N.Y., 1969, (pp 315-316).



3. N.V. Ogarkov, "The Defense of Socialism: Past and Present," *Krasnaya Zvezda*, 2 May 1984.

4. "Conference of the Warsaw Pact Political Consultative Committee. Budapest, 10-11 June 1986," Moscow, 1986, p 29.

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### International Implications of U.S. Financial System

18030011b Moscow SSHA: EKONOMIKA, POLITIKA, IDEOLOGIYA in Russian No 7, Jul 87 (signed to press 18 Jun 87) pp 13-24

[Article by S.V. Gorbunov: "The United States and New Trends in the Capitalist Financial Sphere"]

[Text] Several new features have become apparent in the development of capitalist finances in the last decade and have changed the entire appearance of this important sphere of the economy perceptibly. Various elements of the financial sphere have become more flexible and mobile, new forms of financing are being practiced widely, and the emphasis has shifted from the comparatively rigid regulation of finances to market forms of regulation. At the same time, the increasing internationalization of economic affairs has caused the state and functioning of national financial systems to depend more heavily on international factors. The result is a direct connection between the nature, forms, and volume of international capital migration and the distinctive features of the development of monetary relations in each specific state. The elimination of national barriers is intensifying the struggle for maximum financial control throughout the world capitalist economy and is increasing destructive financial competition.

These processes have gone much further in the United States than in other countries. This has given rise to serious, genuinely qualitative changes in U.S. finances and in the international capital market.

### Transformation of Domestic Credit Market

In the first half of the 1980's there was a clear discrepancy between the U.S. mechanism for the government regulation of the monetary sphere, which had essentially taken shape in the 1930's, and the actual state of credit markets. The main function of this mechanism was to prevent any repetition of the financial crash of 1929, and this led, in particular, to the institution of rigid distinctions between various forms of financial activity, especially between short-term crediting on the one hand and the investment business (the issuance, purchase, and sale of securities) and insurance on the other. For example,

the Banking Act of 1933 (also known as the Glass-Steagall Act) prohibited commercial banks from dealing in corporate securities (stocks, bonds, and other securities). Their principal functions consisted in receiving deposits subject to check and making short-term loans. In turn, the firms which could conduct operations with securities (insurance and investment companies, pension funds, brokerage firms, and others) could not provide clients with savings and checking accounts.

To prevent the loss of deposits and to guarantee the stability of the banking system, the 1933 law instituted compulsory deposit insurance, and a special government corporation was set up for this purpose. Commercial banks were also obligated to keep part of the deposits in reserve in noninterest-paying FRS accounts. Banks could not pay the interest on deposits until it was requested and could not pay interest on funds deposited for less than 30 days. Interest payments on demand deposits of over 30 days in length were subject to limits established by the FRS (the so-called Q regulation). Finally, commercial banks could not have branches in other states. The last two provisions were dictated by the need to limit the competition between credit and financial institutions.

This system functioned more or less normally until around the middle of the 1960's—i.e., under the relatively stable conditions in financial markets and in the economy as a whole. During this period commercial banks dominated the credit business. In the 1950's and 1960's they controlled more than 45 percent of the monetary capital for loans.<sup>1</sup>

In the middle of the 1970's the American economy began to undergo a process of qualitative transformation under the influence of the technological revolution.

The development of new production units is intermittent and often chaotic and is accompanied by the constant and extremely rapid reordering of priorities and by fierce competition in the most promising fields. Under these conditions the earlier rigid financial structure was simply incapable of functioning any longer.

The higher level and broader range of fluctuation in commodity prices, the cost of securities, and interest rates forced investors to pay closer attention to the security and liquidity of their investments. Besides this, rising interest rates created a sizable and permanent gap between the rates on the free market and the income paid on bank deposits and they also increased the cost of keeping money in interest-free checking accounts perceptibly. This led to the massive outflow of capital from the banks. It was invested—directly or through the appropriate financial establishments—in various types of income-producing securities.

The changes in banking legislation in 1980-1982, primarily the lifting of all restrictions on the rate of interest on demand deposits by 1986 and the introduction of several

new types of checking accounts with limited interest (as a result of so-called interest "deregulation"), stopped the outflow of deposits from banks, but did not restore the appeal of the latter completely.

The reason is that the largest American non-financial corporations are now entering the credit market themselves, bypassing the banks, and floating their own securities there. This applies to long-term loans and to the short-term financing that had been the traditional function of banks. The short-term commercial bond market developed quickly, reaching a volume of close to 300 billion dollars in 1986, as compared to 55 billion in 1977.<sup>2</sup> Corporations have made extensive use of this method of mobilizing capital to finance their own production activity and to finance mergers and takeovers, a wave of which has engulfed the American economy in recent years.<sup>3</sup> The capital mobilized for these purposes exceeded 120 billion dollars in 1985 alone, as compared to 10-15 billion in 1975.

Financing based on securities is often cheaper than bank credit. The reason is that the "deregulation" of interest rates raised the cost of deposits for banks by reducing the outflow of capital. To operate at a profit, banks have to set the price of credit at a level exceeding the price in the securities market. This is why the clients of commercial banks are still primarily the government and the corporations that cannot mobilize resources in other forms—i.e., the least solvent and reliable borrowers.

These factors lie at the basis of the rapid development of financing in the form of short-term and medium-term securities and are helping to enhance the role of non-banking financial institutions, whose functions include their issuance on behalf of borrowers, their distribution to investors, and their trade on the secondary market. This applies to investment companies in particular. The share of commercial banks in crediting, on the other hand, had dropped to around 25 percent by the middle of the 1980's. By the end of 1985 securities accounted for 64 percent of all U.S. domestic credit indebtedness, totaling around 7.7 trillion dollars. Securities accounted for more than 50 percent of outside corporate financing.

The securities themselves are becoming more varied. Their features are being adapted to the needs of various categories of creditors and borrowers. For example, bonds producing a much higher than average income are more common. They are issued for insufficiently solvent corporations. These "junk" bonds, as they are called, are also issued to finance mergers and to cover investments in new fields of industrial activity with a dubious commercial yield. In these cases, the higher income compensates for the risk of buying these bonds.

One of the most important features of American financial markets today is the rapid growth of the scales of operations with previously issued securities. In the past, the buyers of notes usually held them until the due date.

Now, however, the trade in these has become an important branch of the U.S. "financial industry." These transactions are promoting the development and consolidation of the securities market, and this is making them more appealing because of the possibility of a guaranteed income and immediate sale.

This immoderate development of financial markets has also been promoted by improvements in asset management technology. Computers are being used more widely in the financial sphere for operations too large and too complex to accomplish in any other way.

The increasing importance of direct financing has forced commercial banks to seek new spheres and forms of activity and not to confine themselves to traditional transactions. Their operations now differ significantly from the classic model. The banks are concentrating more and more, in substance if not in form, on the financial mediation of transactions between final creditors and borrowers, in which their own resources serve as a guarantee of the repayment of security-based loans, and not as the direct source of loan capital. Between 1973 and 1983 the 10 largest U.S. banks increased these operations by 33 percent a year. In other words, an increasing percentage of the operations of commercial banks is more likely to involve transactions with securities than bank credit.

The penetration of the investment business by the banks acquired strong momentum after 1984, when they were allowed to purchase brokerage firms not engaging in the distribution of new securities but simply trading in previously issued notes.

The leading commercial banks are exerting stronger pressure on legislative bodies for completely "equal rights" with investment banks, insurance companies, and other financial institutions. One of their arguments is that the latter have already been operating in the traditional markets of commercial banks for a long time.

An important feature of the current policy of American banks is the attempt to give their own investments the characteristics of securities, namely the possibility of selling them on the market. This applies above all to mortgage loans, which are accompanied by the issuance of bonds. In 1985 these credit instruments represented 50 percent of the mortgage market, as compared to 15 percent in 1981. In the 1980's the trade in outstanding loans between banks also underwent perceptible development. At the end of 1985 the volume of these operations exceeded 45 billion dollars.<sup>4</sup> If the market for these loans should continue to develop, there will be almost no difference between these and the issuance of securities and the subsequent trade in them.

In general, in spite of various restrictions, American banks are diversifying their operations more and more and are departing from their traditional form of crediting. Even today, for example, traditional commercial

loans do not represent any more than 25 percent of the assets of 75 percent of all banks, as compared to 50-60 percent in the 1950's and early 1960's. There have been corresponding changes in the relative significance of various sources of profits. In 1985, for example, Citicorp, the largest credit and financial institution in the United States, received 37 percent of its income from the investment business. In the first quarter of 1986 the income earned by the 10 leading banks from various mediating operations was 44.3 percent higher than it had been in the first quarter of 1985.<sup>5</sup>

In connection with these changes, the Glass-Steagall Act is losing its effectiveness, primarily because banks now have access to the trade in securities. According to Citicorp estimates, commercial banks are now prohibited from conducting only around 5-10 percent (in terms of volume) of the annual transactions in U.S. capital markets.<sup>6</sup>

The elimination of differences between various types of financial activities and the simultaneous erosion of the boundaries separating the monetary sphere from other sectors of the economy are reflected most clearly in the emergence and rapid development of financial conglomerates. These were established in the late 1970's and early 1980's by Merrill Lynch (investments), American Express (credit cards), Prudential (insurance), Sears, Roebuck (retail trade), and Citicorp (the holding company controlling one of the main commercial banks, Citibank). After acquiring companies in other spheres of the financial sector, these firms began offering virtually the full range of financial services: the payment of market interest rates on demand deposits, checking operations, the extension of short-term credit and mortgage loans, the issuance of securities and trade in them, credit cards, real estate transactions, cash flow management, etc.

These "financial supermarkets" have started to open accounts that differ from regular checking accounts only in form and to offer their clients deposit and checking services. Until recently, as we know, commercial banks had a monopoly on these functions.

By law, any organization accepting deposits and extending commercial credit is regarded as a commercial bank in the United States. The conglomerates drop one of these functions after they acquire small banks. As a result, the new firm is no longer a bank in the formal sense (this was the origin of the new American business term "non-banking banks"), but does have the right to insure deposits, which enhances the reliability of deposits without the related costs of regulation. By the middle of the 1980's there were around 140 such "banks" in the United States. The scales of their activity are already quite impressive. In the middle of the 1980's, for example, 32 companies which were not officially classified as banks extended more than 100 billion dollars in credit to industry. This was equivalent to around 30 percent of all the outstanding commercial loans extended by the 15

largest banks. The commercial banks responded by opening similar establishments. In this case, the new "bank" usually does not accept deposits but does make loans.

In the opinion of many American experts, these conglomerates are the wave of the future in the U.S. financial system. Arizona State University Professor H. Kaufman believes, for example, that "the financial supermarket, which Merrill Lynch is beginning to resemble more and more, ...could be the prototype of the financial institution of the future."<sup>7</sup>

### The New Phase of Internationalization

Another of the main characteristics of the current changes in the U.S. financial system is its tendency to merge with the international financial market. National and international financial markets are ceasing to be opposite entities. Now they are more likely to supplement one another by specializing in different operations, but they nevertheless compete constantly by offering similar forms of investment and financing.

There is more capital movement between individual sectors of the economy in various states, even if the overall payment positions of the latter do not require this. The monopolies regard these operations as an alternative to their domestic markets. "American, English, and Japanese investment firms," the *Economist* commented, "can no longer be confined to their own market; they must be present in one another's markets, buying and purchasing securities to keep a finger on the pulse of the constantly changing commercial situation."<sup>8</sup>

The increasing internationalization of capitalist finances is also attested by the following example. Banks, non-financial corporations, and government agencies in the capitalist countries experiencing the need to acquire funds in a specific market (either foreign currency or a specific form of financing) often have no access to it because of high costs or currency restrictions. At the same time, they have the chance to obtain preferential credit in another market. In this case, they seek, either independently or through a middleman, a partner in the opposite position. Each partner then receives the credit in the relatively advantageous market and exchanges it for the credit received by the other partner.

These operations, which are known as "swap" transactions, have been made possible by the convergence of different markets. In turn, this process is being accelerated by these transactions.

The redistribution of credit resources within the boundaries of a single state with the mediation of the international market is developing continuously. "The globalization of the financial sphere," the annual report of the Bank of International Settlements says, for example, "is transferring a substantial portion of internal operations to the international market. For this reason, the total

volume of new credit allocations in international markets does not signify a corresponding increase in crediting on the global scale."<sup>9</sup> The merging of national and international financial markets is equalizing the dynamics of internal and international financing. In the middle of the 1980's, for example, funds extended to final foreign borrowers in all forms increased at a rate of 10-12 percent a year, which was approximately equivalent to the growth rate of internal credit in the main capitalist states.<sup>10</sup>

The merging of national and international financing has gone the furthest in the United States. The "domestic" and "foreign" dollar markets are being consolidated and the differences between them are rapidly disappearing. This process began when capital export controls were lifted in 1974. The previously mentioned "deregulation" of domestic interest rates in the first half of the 1980's was of equal significance. As a result, whereas in the 1960's the domestic (prime rate) and international (Libor) rates on loans in dollars differed by 3 or 4 percentage points (counting various discounts and surcharges), now they differ by only 0.2-0.4 points. The level of interest rates now depends on the global demand for dollars and their supply.

The situation is similar in the securities market, where the differences between their domestic and international varieties are rapidly disappearing, and this is specifically reflected in the equalization of their income. This was promoted in part when the tax on interest earned by foreigners on American securities was abolished in the United States. The acceleration of the procedure by which securities are issued in the domestic U.S. market equalized costs.

The U.S. credit and financial system now includes a larger share of once relatively autonomous international operations and, at the same time, is also becoming part of this largely unified market, which, in addition to everything else, is increasing its dependence on external factors. According to some estimates, for example, they were the cause of from 18 to 64 percent of the changes in commercial credit rates from 1975 to 1980. At the beginning of the 1970's the influence of external factors was virtually imperceptible.<sup>11</sup>

As a result of increasing interaction, the prevailing trends in the domestic U.S. financial market soon make their appearance in the international sphere, from which they spread to the national financial systems of other countries. The merging of bank crediting and operations with securities has been no exception to this rule, and it is now taking place primarily in the Eurodollar market. In addition to the causes discussed above, the more important role of securities in the international market is also connected with the changing patterns of international financial flows and the concentration of credit transactions in the developed capitalist countries. Whereas the developing states' share of international financing ranged from 50 to 55 percent in the second half

of the 1970's, the figure was 18 percent in 1985, and it was just slightly over 6 percent in 1986.<sup>12</sup> Only the giant monopolies and government agencies of the capitalist states enjoy the degree of confidence required in the market for the extension of funds in this form.

Above all, this applies to bonds with a floating rate, which are bought mainly by banks. They have an expiration date of from 5 to 15 years. These bonds, which essentially do not differ much from medium-term bank credit, are cheaper for borrowers and can be sold on the market readily. Bonds with a floating rate have also become an important means of mobilizing resources by the banks themselves. In this case, they are similar to time deposits, but they can be converted into cash at any time.

The special bank medium-term credits known as NIF (note issuance facilities) are another "hybrid." In this case the banks guarantee the client's acquisition of capital by pledging to acquire his remaining unsold securities on the market or extending him a loan for this amount. The NIF are used not only to acquire funds in Eurodollars but also as a guarantee of the issuance of short-term commercial notes on the U.S. domestic market.

In general, international transactions with securities are becoming predominant and are taking the place of traditional credit. Whereas notes and bonds represented only 32 percent (45 billion dollars) of all international financing in 1981, the figure was 91 percent (212 billion dollars) in 1985.<sup>13</sup> In 1986 the indicator rose to 92 percent.

Attempts are also being made to increase possibilities for the resale of traditional international bank loans. This applies above all to the old credits extended to developing countries. This, however, entails considerable difficulties. In view of the improbability of repayment in full, these credits can only be sold at a huge loss. In October 1986, for example, the actual value of credits extended to Brazil was 76 percent of the nominal value, and respective figures for other countries were 57 for Mexico, 66 for Argentina, and 20 for Peru.<sup>14</sup> Transactions on these terms can have an adverse effect on bank balances, and this is the main reason for their slow development (under a billion dollars a year).

At the same time, the sale of shares in new consortium credits is being practiced more widely. In 1985 the volume of loans accompanied by this stipulation was around 5.4 billion dollars, or 25 percent of all financing in this form. The possibility of losing one's share gives consortium credit many of the features of securities and makes it similar to financing through the issuance of short-term notes.

The transformation of the U.S. financial system and its merger with the international market are alarming the other main capitalist countries, whose money markets

and capital markets are much less effective than the American markets because of numerous restrictions. The financial innovations which have reached their highest level of development in the American market and this market's close integration with the international credit market have increased the appeal of the transfer of funds to the United States, and not only because of the amount of income derived, but also because of the greater variety of credit instruments for depositors with specific needs and the reliability and safety of investments (because they are insured against various risks). Under these conditions, an increasing percentage of the savings of the entire capitalist world is entering U.S. financial markets. Here these savings are absorbed by American credit and financial institutions and are sent to final borrowers—domestic or foreign—depending on the current economic situation.

By the middle of the 1980's the United States was winning the "war for savings," and this gave it a new and powerful means of exerting pressure on its allies, which must be aware of the possible negative consequences of this situation. The development of competitive financial markets is becoming the central concern of all capitalist countries without exception. It is indicative that the creation of a common market of financial services by 1992 is among the main strategic objectives of the EEC. The reorganization of capital markets in Western Europe and Japan is being stepped up, and they are being liberalized according to the American model.

The increasing number of countries with "open" markets has reduced the dollar's role in international financial operations. For example, whereas 98 percent of all international bonds with a floating rate were issued in dollars in 1982, the figure was 90 percent in 1985. The respective indicators for long-term bonds with a fixed rate were 54 percent and 46-47 percent. At the same time, international bank crediting in dollars actually increased—from 68 percent in 1980 to 74 percent in 1985.<sup>15</sup> The dollar still dominates international financial markets.

Operations designed to insure clients against the risk of changes in interest rates, currency exchange rates, and so forth (demand transactions, "swap" transactions, options, and some others) have made the profitability of the single security and other financial operations less dependent on the relative profitability of investments in assets in different national markets. This indicator is being equalized to a certain extent, and this is a direct result of the merging of individual national financial markets. At the same time, this equalization is constantly impeded by the retention and frequent intensification of differences in the nature of the economic development of individual countries and groups of countries. The move to a new level of parity, which is just as unstable as the previous one, is the result of the massive transfer of capital, accompanied by broader-scale speculation and fierce competition, and these destabilize individual financial markets and the world capitalist economy as a whole.

### **The Capitalist Credit and Financial Sphere: Heightened Tension**

The fierce financial competition and "all-out warfare" in national and international money markets are doing much to destabilize this important sphere of the world capitalist economy. Furthermore, the rapid reorganization of financial markets in recent years has heightened the danger of upheavals considerably. This reorganization, which was made necessary by the objective requirements of the development of productive forces, is leading in general to the more effective redistribution of resources among various sectors of the economy on the national and international scales, but the simultaneous decline in the effectiveness of outdated methods of state regulation, which primarily affect commercial banks, and the emergence of new and still uncontrollable forms of financing are increasing the probability of a financial crisis. In the opinion of the authors of a report prepared for the "Group of Ten" on the present and future development of world financial markets, there is no question that the new operational equipment developed in recent years has enhanced the effectiveness of markets, but there is also no guarantee that these changes will help to make the overall economic situation healthier.<sup>16</sup>

Today it does not seem possible to predict the exact scales, forms, dates, and consequences of this kind of crisis or its immediate causes. The only statement that can be made with any certainty is that it will inevitably take on international features because of the global nature of today's financial markets. In this context, the debt crisis of the developing countries is probably only the tip of the iceberg.

Tension is increasing throughout the credit and banking system of contemporary capitalism, and especially in the U.S. domestic market.

Some of the most characteristic features of economic affairs in the United States are the constantly increasing volume of credit indebtedness, the deterioration of its structure, and the decline of credit standards. By the end of 1986 the total debts of private individuals, corporations, financial establishments, and the government exceeded 8 trillion dollars, which is twice the size of the GNP. This is the same debt-GNP ratio as on the threshold of the crisis of 1929-1933. Between 1945 and 1980 the correlation usually did not exceed 1.5. Furthermore, there are more short-term debts now, and this is undermining the solvency of corporations.

American credit institutions are now in an extremely difficult position. According to the data of the Federal Deposit Insurance Corporation, for example, whereas 385 commercial banks were experiencing some kind of difficulties in 1976, the number had risen to 1,450 by the end of 1986 and continued to increase by one bank each day. In 1986 over 150 commercial banks stopped making payments (49 in 1983).

In the expectation of even harder times, the banks have been creating special reserves for the possible loss of "problem" credits. It is doubtful, however, that these measures will be enough if several large borrowers—U.S. corporations or foreign clients—should stop making payments simultaneously. The reserves created by most of the leading American banks to "insure" credits extended to developing countries, for example, do not exceed 5 percent of the total amount of this credit on the average. In the opinion of many experts, the relative security of banks requires a correlation of at least 20 percent.<sup>17</sup>

The other side of the coin of the increasing role of direct financing was a substantial decline in the quality of credits extended by banks and the deterioration of their liquidity. They are giving up their most reliable liquid investments because these produce the least income.

The "quality" of credits is also deteriorating because of the previously mentioned concentration of the traditional bank loan operations on the least solvent debtors. This reduces the possibility of covering losses with more reliable operations.

Serious problems are also being engendered by the development of operations connected with the issuance and sale of securities. Many banks regard them as completely safe transactions, but if borrowers should experience difficulties, the banks will have to fulfill their obligations and extend their own funds. In this case, their liquidity will be dramatically diminished, and the income they earn will not be enough to cover their possible losses. The volume of these operations, however, is growing rapidly. At the end of 1985 they represented 11.4 percent of the total assets of the largest American banks, as compared to 5.8 percent in 1981.

The reduced flow of funds into banks as a result of the investment of available capital directly in securities is limiting the ability of these financial institutions to extend the necessary resources in the event of a crisis. Without the banks, these emergency "rescue" operations would probably be impossible.

The decentralization of credit operations in connection with the increased significance of securities and the minimization of direct contact between creditors and borrowers are complicating the attainment of reliable information about the status of the latter and are consequently increasing the probability of faulty decisions. If payments on issued securities should be stopped, it will be much more difficult to contact all of the creditors for the arrangement of payment deferments. All of this will undermine the stability of the financial system.

In recent years, as we already mentioned, numerous methods of protection against the risk of changes in currency exchange rates, interest rates, the value of securities, and so forth have been developed. These transactions are snowballing. This does not mean that all

risks have been neutralized. They have simply been redistributed and could reveal themselves at the most inconvenient times, and perhaps in unfamiliar forms. The fact is that, as the debt crisis of the developing countries demonstrated, when the banks protect themselves against secondary risks they heighten the probability of non-payment by borrowers. Now this probability has increased immeasurably and extends to a much broader range of debtors.

The unprecedented increase in the scales and forms of financial operations and the emergence of increasingly "exotic" varieties of these operations are placing a heavy burden on electronic payment systems and are creating the real danger of computer errors in the analysis of incoming information and in the completion of specific transactions. This applies above all to American systems, which handle not only internal transactions but also the majority of international payments made in dollars. The total annual turnover of the two largest U.S. systems, Fedwire and Chips, exceeds 350 trillion dollars, for example. Because of the scales of these operations, any computer error could lead to chaos. This is a completely real possibility. At the end of 1985, for example, the breakdown of an electronic payment system caused "losses" of 22.6 billion dollars in a single day. The collapse of the credit pyramid was averted that time, but no one can be certain that the next malfunction will not have more serious consequences.

The excessive growth of the capitalist world's credit indebtedness has been accompanied by excessive speculation. These deals involve not only speculation in securities as such, but also in the right to buy and sell them and even in the right to buy this right. The volume and nature of financial operations are conflicting more and more with real economic needs. The fictitious capital represented by securities corresponds less and less to actual capital and is becoming doubly or triply fictitious. This increases the unproductive use of resources, which are entering the financial sphere on a constantly broader scale for the attainment of speculative profits. The proportion accounted for by the U.S. financial sector in the GNP, for example, increased from 11 to almost 17 percent between 1950 and 1984.<sup>18</sup> In the words of the well-known American economist and Nobel Prize winner J. Tobin, "we are throwing constantly increasing quantities of our resources into financial operations providing single individuals with fabulous profits. The size of these profits is incomparable to the beneficial effects of finances on the economy as a whole. The colossal potential of the computer is being used in this 'paper economy' not to make existing transactions more economical, but to increase the volume of financial operations to colossal proportions.... Only a small part of what is being done with securities has any relationship to the financing of real investments."<sup>19</sup>

Finances are penetrating all links of the reproductive process. The sphere of capitalist circulation is closely intermingled with production and is having a strong

reciprocal effect on its development. The boundaries between the two are gradually disappearing.

What is happening in financial markets today is largely a repetition, but on a qualitatively new level, of the situation in the late 19th century and the first third of the 20th. In both cases the transfer to a new technological order necessitated the more flexible, effective, and extensive redistribution of credit resources. This is being accomplished through the development of new forms of financing, the universalization of existing credit institutions, the expansion of their financial base, the emergence of new multisectorial financial middlemen whose activities are restricted less by existing rules and regulations, and the close integration of individual financial markets on the national and international levels. The development of these trends, however, has been accompanied by the intensification of the parasitical nature of capitalist finances. Under present conditions, the unprecedented wave of largely speculative transactions is engulfing not only currency markets, but also, and perhaps to a greater extent, the closely integrated capital markets of the main Western countries. This could undermine credit and, consequently, could lead to new and probably more devastating upheavals in the world capitalist economy.

#### Footnotes

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#### "Democratization of Ownership" in U.S. Corporations

18030011c Moscow SSHA: EKONOMIKA, POLITIKA, IDEOLOGIYA in Russian No 7, Jul 87 (signed to press 18 Jun 87) pp 34-43

[Article by A.I. Izyumov]

[Text] One of the most important areas of the reorganization of management in American corporations in the 1980's has consisted in the development of new and more effective methods of including labor in the production process to enhance the productivity and quality of labor, to attach workers and employees more closely to the interests of "their" corporations, and to alleviate tension in labor relations.

Radical advances in technology and changes in the qualitative features of the labor force in the last 10 or 15 years necessitated the revision of earlier principles of manpower management to "humanize" them and make them more flexible. Since around the middle of the 1970's the most advanced U.S. corporations as far as management is concerned have been expanding the scales of their experiments in the encouragement of workers to manage production and share in the capital and profits of the corporations.

These experiments cover an extremely broad range. In some cases they include only organizational innovations and have virtually no effect on traditional relations of ownership and control (for example, "quality groups," "independent teams," etc.), whereas in other cases more complex methods are used, envisaging the encouragement of labor to take part in day-to-day management, share profits and stock capital, and even take partial control of the capitalist enterprise.



In this article an attempt is made to analyze the main causes and results of the use of methods in the United States to involve labor in the affairs of capital enterprises, methods based on employee stock-sharing plans.

### Participation in Ownership: Goals and Mechanism

Rank-and-file workers and employees are usually encouraged to participate in corporate ownership by means of the transfer or sale of ownership documents—i.e., stocks. More than 42 million individuals in the United States now own stock. Of course, in the overwhelming majority of cases these are small or minuscule holdings. Large holdings are concentrated in a few hands. (According to a recent U.S. Federal Reserve System survey, half of the stock capital in the country belongs to just 2 percent of the families.) Indirectly, however, through participation in pension funds, American workers and employees own a fairly large share of the stock capital in the country. According to some estimates, pension funds own 20-25 percent of the stock in all of the largest corporations listed on the New York and American stock exchanges.<sup>1</sup> Of course, this “ownership” is passive and is not reflected at all in the motivation of workers and employees.

The main distinction of sales of stock within the framework of these participation programs is that workers are offered the securities of their own company, and not of any other. The corporate bosses’ line of reasoning here is quite simple: They assume that workers who own stock in their companies and earn dividends from profits will begin to feel like co-owners and will work more productively. Therefore, by transferring part of their stock capital to their workers, firms should automatically gain more loyal personnel, more highly effective production and, eventually, higher profits. Another goal, an unspoken one, is connected with the expectation of corporation owners and top-level management that workers who become formal co-owners of the means of production will not put up as strong a fight for their own rights, and this, in turn, will undermine the influence of labor unions and integrate labor more closely into the capitalist system, in the social and political respects as well as from the technological standpoint.

In spite of the appeal of these ideas, the distribution of stock to company personnel has not been practiced widely in the United States until recently. It was impeded, on the one hand, by the limited financial resources of the rank and file and, on the other, by the reluctance of corporation executives to give their subordinates even partial control over their actions.

Negative past experience also played a definite role. We know that the first “boom” in employee stock distribution programs took place in the 1920’s in the United States. At that time the American bourgeoisie was forced to do this by the pressure exerted by labor unions and by

its fear of socialism, aroused by the growth of the communist movement in the United States and the revolutionary events in Russia and Europe.

By 1929 there were already more than a million worker-shareholders, and the value of the stocks they owned had reached 1.5 billion dollars.<sup>2</sup> The “great depression” of 1929-1933, however, caused stocks to plunge catastrophically and buried all hopes for broader worker ownership. Workers had to sell their stocks at a huge loss, and by 1935 virtually all stock distribution programs had been abolished. After the war there were a few isolated attempts to institute programs of this kind, but the prestige of the discredited idea of “worker ownership” was not restored on the national level until the middle of the 1970’s. The situation began to change after the passage of a special law on *Employee Stock Ownership Plans* [in English] in 1974.<sup>3</sup> The employee stock ownership plans (hereafter called ESOP) were essentially one method of distributing company stock to personnel. One of the distinctive features of these plans is that the stocks turned over to workers are paid for gradually, over a period of many years, and out of company profits rather than by the workers themselves.

On the surface, these plans look like a charitable action by company owners for the good of their personnel. In reality, of course, this is far from the truth. First of all, the ESOP’s are usually instituted “in exchange” for substantial wage concessions. In the second place, the companies pay far less than the market value for the stocks, because all of these payments are deducted from their taxable profits (this is one of the provisions of the ESOP act). In the third place, if companies use bank credit to buy the stocks, they are allowed to deduct the interest on these loans from their taxable profits, in line with conventional tax laws, and also most of the principal.

In accordance with the 1974 law, the companies with these plans have substantial tax benefits. This fact, combined with the hope of employers that participation in ownership would make workers more receptive to the interests of their companies, provided the momentum for the rapid increase in the number of these plans in the second half of the 1970’s and the first half of the 1980’s. In 1975 there were 1,000 such plans, but by the beginning of 1986 there were already 7,000, and they covered almost 10 million employees.<sup>4</sup> The companies with these plans now employ around 10 percent of the national labor force, and they include the largest companies (Chrysler, American Telephone & Telegraph, Sears, Roebuck, Phillips Petroleum, the Parsons Corporation, Eastern Airlines, People Express Airlines, and others).

Most of the companies with these plans, however, are small or medium-sized firms. According to the data of a special survey conducted at the beginning of the 1980’s, public corporations—that is, large and giant companies whose stocks are listed on the stock exchange and are accessible to the general public—represent only one-fifth



of all the companies with these plans. The remaining four-fifths are so-called private corporations, whose stocks are not available for sale to the general public.<sup>5</sup>

There is no question that these plans are now the most widely practiced form of experiments in employee ownership. The number of companies with these plans increases at a rate of 10 percent a year. By 2000 these companies are expected to employ around 25 percent of the U.S. labor force.

There are two main ways of instituting these plans. In the first case, the companies deciding to institute employee ownership plans create a so-called *employee stock ownership trust* [in English] and regularly turn over part of their profits to it. As funds accumulate in the trust account, they are used to buy stocks from their previous owners and transfer the ownership of them to company employees. In the second case, the employee stock ownership trust takes out a bank loan (secured by company assets) and immediately buys a certain percentage of stocks from their "old" owners.

As for the employees themselves, their economic interests are reflected in extremely contradictory ways in the stock ownership plans. On the one hand, the ownership of company assets is transferred to them for free—that is, at company expense. On the other hand, these ownership rights are extremely limited and difficult to exercise. First of all, according to the legislation governing the ESOP, the stocks are not the property of the employees until: a) the entire loan taken out by the company for the purchase of the stocks has been repaid; b) the employee has worked for the company a specific number of years. Until these conditions have been met, the stocks remain in the employee stock ownership trust under the control of a board of trustees, usually consisting of representatives of the company management and the bank extending the loan for the ESOP.

The distribution of stock to employees is conducted either on the basis of wages, or on the basis of seniority, or a combination of the two. If, for example, the first criterion is used, the worker receives ownership rights to a percentage of stock corresponding to the proportion accounted for by his annual wage in total company wages. Furthermore, the stocks due each worker do not become his property immediately, but only after a lengthy period of time, usually 10 years after the creation of the employee stock ownership trust. Until this time, stock ownership rights depend on the worker's term of participation in the ESOP: usually 30 percent of the stock after 3 years, 40 percent after 4 years, etc.

Workers are paid dividends on the stocks held in trust, and the size of these depends on company profits. If the worker resigns or retires, he has the right to withdraw his stock from the trust and do whatever he wants with it—

that is, keep it or sell it (private corporations whose stocks are not listed on the exchange are obligated by law to purchase these stocks from workers at a price set by an independent expert).

Depending on the goals of the companies instituting the ESOP, the stocks transferred to the employee stock ownership trust can be under or over 50 percent of all company stock. In accordance with this, the companies with these plans can be divided into those in which the employees own the majority of stock (*majority employee-owned companies*) [in English] and those in which the employees own a minority block (*minority employee-owned companies*) [in English]. According to available data, approximately one-sixth of all the companies with these plans (around 7,000) belong to the first category.<sup>6</sup> In the largest corporations the stock owned by workers usually constitutes only a negligible percentage of the total. In AT&T, for example, it represents only 2 percent of the total, and in Pan American it represents 12 percent. On the average, the employees included in these plans own from 20 to 35 percent of the stock.<sup>7</sup>

The experiment in the use of the ESOP in the 1980's proved that these plans could perform another extremely important function: namely, serving as an effective means of averting unfriendly takeovers. As we know, these takeovers are accomplished by purchasing the controlling block of stock in the "victim-company." The institution of the ESOP and the timely transfer of enough stock to the employee stock ownership trust can prevent a takeover because workers, as experience has shown, are extremely conservative shareholders and their interest in keeping their jobs will cause them to refuse to sell their stock to new owners. Dozens of corporations used the ESOP's to prevent takeovers between 1984 and 1986.

This suggests that the ESOP mechanism allows company owners to use the partial concession of stock ownership to attain several goals, including the attainment of tax privileges, access to cheap credit, protection against unfriendly takeovers, and the offer of another form of social insurance to workers.

As for the opportunities employees have to exercise the ownership rights transferred to them within the ESOP framework for the effective control of the affairs of their own corporation, they are actually quite limited. The fact is that the provisions of the majority of existing plans separate the ownership rights of workers from their right to vote at shareholders' meetings or to make decisions. A survey of companies with these plans revealed that only 21 percent of them grant their shareholding personnel complete voting rights; the personnel of 10 percent of the companies are given partial voting rights, and the personnel of 69 percent have no voting rights.<sup>8</sup> In the cases in which workers have no voting

rights, their votes are controlled by the trustees of the employee stock ownership trust—that is, by top executives of the company itself and the bank financing the plan.

In economic literature the plans in which employee shareholders are not granted voting rights are called undemocratic, and those in which they have these rights are called democratic.

#### **Economic Results of Experiments in "Participation"**

In spite of the numerous restrictions, programs of employee participation in ownership are usually welcomed by workers and have a positive effect on the economic indicators of companies.

Several studies conducted in the United States in the second half of the 1970's and the first half of the 1980's indicated that the institution of these plans helps to enhance labor productivity and product quality, strengthen discipline, improve relations between labor and management, and raise the level of job satisfaction.

For example, according to the data of a comparative study of around 200 companies with ESOP's, their average annual growth rates of labor productivity were 1.6 percent higher than in other corporations. According to the data of another study conducted by researchers from the University of Michigan, the profit norm in companies with an ESOP was approximately 1.5 times as high as the average in the respective industries. According to the results of surveys, the institution of these plans improves product quality in 32 percent of all cases, reduces employee turnover in 36 percent, improves relations between labor and management in 49 percent, and heightens personnel involvement in company affairs in 79 percent.<sup>9</sup>

The most famous example of a successful stock ownership plan in the United States is probably the steel plant in Weirton, West Virginia. It was a liability for the National Steel Company and was scheduled to be closed, but in January 1984 it was sold to its employees for 386 million dollars. The mechanism of the 1974 act on the transfer of stock ownership was used as the instrument for the transaction, and the employees also agreed to a 20-percent pay cut in exchange for the chance to keep their jobs and to become full owners of the plant within 10 years.

As a result of lower wage costs and higher output, the profits of Weirton Steel on each metric ton of rolled steel products rose to 45 dollars, as compared to 1-6 dollars for its main competitors, within the first year the plan was in effect, and this changed the unprofitable plant into a highly profitable one. The improvement of the company's financial status allowed for the rehiring of around 1,000 previously discharged employees and increased the total number of jobs from 7,200 to 8,200, or by 14 percent.<sup>10</sup>

In some cases, however, attempts by employees to prevent the closing of enterprises with the aid of the ESOP result in financial ruin. This is precisely what happened, for example, when a packing company in Iowa, Rath Packing, was purchased through an ESOP. In 1980, 2,000 workers invested 3.6 million dollars of their own money in it for the rights to 100 percent of its capital stock. Unfavorable market conditions and obsolete equipment, however, made it impossible for them to keep the company afloat, and in 1983 it had to file for bankruptcy. In 1984, when the bankruptcy proceedings were still going on, the executives of Rath Packing discharged 1,700 worker-"owners" in view of the impossibility of paying their wages.<sup>11</sup>

The bankruptcy of Rath Packing, just as the failures of other such experiments, provided vivid proof of the serious objective obstacles standing in the way of "worker" ownership. Although the transfer of partial rights to own company stock and earn profits to workers could establish the prerequisites for more effective production, the realization of this potential actually depends on many factors. In addition, although the institution of stock ownership plans can provide certain incentives for better and more productive labor, it obviously cannot resolve difficulties of a structural nature, resulting, for example, from the technical underdevelopment of production or from merchandising problems. "Participation by workers in ownership is not a cure-all or a magic potion to turn old equipment into new," one of the consultants in the abovementioned Weirton Steel transaction acknowledged. "The principle of participation works only when other, more fundamental principles of business practices are observed."<sup>12</sup>

American experts on labor have made persistent attempts to clarify these principles. Their studies indicate that the connection between the level of worker motivation and the degree of participation in capital stock is not a direct one; growth and involvement in company affairs require a certain minimum degree of participation. In the case of small and medium-sized companies, this level has been set by experts at 10-15 percent of the capital. The share can be smaller in large companies; here the value of the block of stock allotted to each individual participant in the plan is a more important basic indicator. In the opinion of experts, by the time the worker retires, it should be worth at least 10,000 dollars.<sup>13</sup>

It must be said that these indicators are far below the minimum in most of the large American companies with ESOP's. A study of the plans in the largest corporations on the *Fortune*-500 list by the National Center for Employee Ownership revealed that the employees generally own less than 1 percent of the stock in these corporations, and the average value of the stock owned by each employee was only 600 dollars.<sup>14</sup> It is not surprising that the institution of these plans in large companies has virtually no effect on the economic results of production. The conflict between management's

appeals to the workers to "have a sense of ownership" and the virtually imperceptible level of worker participation in ownership leaves the latter indifferent at best. In companies where worker participation exceeds the minimum, on the other hand, the economic indicators of production are higher than the average.

Experience has shown that the plans produce the greatest economic impact when they are combined with worker participation in the management of the company. It is only after they have this opportunity that workers begin to sense the real meaning of their formal rights of ownership and to take the problems of their company to heart.

To secure their right to participate in management, workers must, first of all, control (or vote on) their own stock and, second, make independent decisions on matters of labor organization at the lowest level. It is here, however, that the main problem in the ESOP experiments exists. In the majority of these plans the workers' voting rights are either limited or non-existent, and the management of production is conducted by means of traditional authoritarian methods. Suffice it to say that in 1985 the personnel of only 15 percent of the large companies with ESOP's had the right to vote at stockholders' meetings.<sup>15</sup>

### Ownership and Control

The inherent conflict between ownership and control in the majority of ESOP experiments sometimes leads to paradoxical situations in which employee-owners are incapable of opposing the decisions of their hired (in the formal sense of the term) managers and must resort to strikes to defend their interests. This situation arose, for example, in the South Bend Lathe company.

The workers of this company received 100 percent of the stock through the ESOP, but they could only vote on part of it until the bank loan had been repaid. Because of this, major production decisions were made over their heads. As a result, soon after the plan had been instituted, executives launched a "reorganization," laying off some personnel and transferring some production units to South Korea. They also used the legal mechanism of the ESOP to constantly postpone the transfer of voting rights to workers. During the resulting acute labor conflict, the workers went on strike, formally opposing themselves in their capacity as owners of the company.

In a general observation on incidents of this kind *Business Week* admitted that "employee stock ownership plans still rarely reach the level of industrial democracy promised by their supporters. Most executives refuse to yield control to workers on boards of directors and on the lowest level. By doing this, these companies are refusing to use the potential of the principle of democratic ownership."<sup>16</sup>

The relationship between ownership and control is a key factor in the attitude of labor unions toward the ESOP. On the one hand, the partial ownership rights acquired by workers frequently prevent the closing of plants, save jobs, and would seem to give labor unions additional opportunities to exert pressure on management (ideally, to the point of its replacement with more obliging administrators), but the transfer of rights of ownership and rights of control is actually an extremely difficult process. Besides this, after the ESOP has been instituted, the administration has an important trump card in its struggle against labor unions. Who needs them if the company belongs to the workers?<sup>17</sup> On the other hand, according to available data, the institution of these plans prevented the closure of around 100 plants and saved at least 50,000 jobs between 1980 and 1985.<sup>18</sup> Furthermore, labor unions played the deciding role in organizing the rescue of failing enterprises in many cases. This was true, for example, in the previously discussed case of Weirton Steel, where the ESOP was suggested by the local branch of the United Steelworkers of America, and in the case of Atlas Chain and Bridgeport Brass, where these plans were organized with the aid of the United Automobile Workers of America. Some of the unions' consultants have advised them to demand the institution of these plans, not only when there is a danger of closure or takeover, but also under ordinary conditions, by including this point in the collective bargaining with employers.

To date, however, most labor unions have been in no hurry to follow this advice. Many union leaders are unsure of the very principles of union activity in situations involving workers who are also the owners of their company. Besides this, labor unions have the valid fear that management would use the ESOP mechanism to the detriment of labor interests. Experience has shown that this is not uncommon. We have already said that the transfer of stock to workers is often accompanied by a demand that workers consent to pay cuts, and these are sometimes sizable cuts of 15-20 percent. In some cases, workers are also asked to consent to the replacement of pension security with stock ownership plans (in other words, to create employee stock ownership trusts directly with the capital of pension funds). The most scandalous form of ESOP abuse is the situation in which management and financial experts take advantage of insufficiently informed employees by forcing them to buy stock from owners of companies doomed to go bankrupt.

The case of the Dan River textile company is a vivid example of the arbitrary treatment of worker-owners by management. In 1983, when this company was threatened by a takeover, management talked 12,000 workers into an ESOP. The labor union agreed and, what is more, voted for the transfer of all the money accumulated in the pension fund to the employee stock ownership trust. The workers who received 70 percent of the stock as a result, however, did not become the proprietors of their company. What is more, the administration closed four plants and laid off 4,000 workers in the next 2 years.<sup>19</sup>

During this entire period management did not share any confidential information about the financial status of the company and its investment plans with the workers; they learned about the decision to close "their" plants from local newspapers, and not from management. In this way, workers made concessions but did not gain job security or any significant role in management. Company executives, on the other hand, gained a great deal, because the institution of the ESOP not only saved them from the inevitable restaffing accompanying takeovers but also strengthened their control over the company.

In recent years corporate executives have found another way of using the ESOP mechanism to their own advantage. They use these plans during the *leveraged buyouts* [in English] that have been so common in the United States in the 1980's. These transactions, mapped out by Wall Street "financial geniuses," essentially consist in the following: A group of executives buy their own company on credit secured by its assets and make only negligible investments out of their own pocket. As a result, the executives become co-owners of companies along with the banks financing the transactions.

Many executives, however, did not want to share control with banks (the banks usually control more than 50 percent of the stock in these cases). Financial consultants came to their aid, suggesting the use of ESOP- engendered employee stock ownership trusts for the purchase of the companies. Because the previously discussed legislative restrictions make the rank-and-file employees participating in these trusts "silent" shareholders for a long time, the executives using the trust funds instead of a bank loan to purchase their company do not have to share control with anyone.

One example of a transaction accomplished with the use of this trust was the buyout of the Blue Bell company in November 1984, in which the executives who spent 9 million dollars acquired 25 percent of the stock while the employee stock ownership trust of 67 million dollars was left with only 33 percent of company control. In another case the executives of Raymond International convinced 6,000 employees to convert their pension fund (of 100 million dollars) into a stock ownership trust and then used this money to buy company assets from the previous owners.

By an ironic twist of fate, the leading U.S. consulting firm in transactions of this kind is Kelso & Co., founded and headed by the inventor of the ESOP mechanism and the preacher of "democratic ownership," L. Kelso. It is indicative that Kelso himself does not acknowledge the internal contradictions of his invention, which often makes workers even more dependent on the whims of employers and executives instead of turning them into owners. In their book "Democracy and Economic Power," L. and P. Kelso effectively avoid any analysis of the conflict between ownership and control that has been so

apparent in the ESOP experiments in the 1980's, proposing instead of this an ambitious program for the extension of these experiments to enterprises in the public sector, private residential construction, and so forth.<sup>20</sup>

Therefore, the experiments with stock ownership plans in American corporations prove that even the possession of partial rights of ownership of the means of production does not give workers in the capitalist economy any guarantee of genuine control over the affairs of their company or enterprise.

### The Role of Government

The labor conflicts in companies with ESOP's and the many abuses of authority by executives and former owners have forced even the supporters of the idea of "democratic ownership" to doubt the prospects for the development of ESOP's. Many have observed that the future of these plans will depend largely on the position taken by the government. The generous tax benefits which give companies an incentive to institute the plans are quite costly for the federal treasury. In fiscal year 1986, for example, lost budget revenues in this area amounted to 2.6 billion dollars, and in 1990 they are expected to reach 4.4 billion. The current campaign in the U.S. Congress to reduce the federal budget deficit could jeopardize the financing of tax benefits for the plans, especially now that the abuses of the ESOP mechanism by executives have severely injured the reputation of this "progressive form of ownership." According to one of the drafts submitted by the Treasury Department, the annual subsidization of plan benefits should be reduced by a billion dollars in the next few years.<sup>21</sup> Some sources of government financial assistance have already been cut in line with government programs of budget austerity. In particular, there have been cuts in the budgets of the Small Business Administration, the Economic Development Administration, and the Department of Housing and Urban Development, which have supplied the companies with ESOP's with preferential loans and subsidies.

In spite of the importance of government assistance, however, cuts in this assistance certainly do not pose the main threat to the continuation of the experiments in worker ownership. Suffice it to say that they can be financed by the virtually inexhaustible reserve represented by the pension funds of corporations, which exceeded 1.4 trillion dollars in 1985.<sup>22</sup>

The main threat to the future of worker-owned companies probably consists not in financing problems but in the contradiction between the principles of "democratic ownership" and the fundamental laws of capitalist production and accumulation. When the transfer of stock ownership to employees is initiated by the owners of corporations and executives, it soon turns out that the workers are being offered "second-class" ownership rights, giving them no real possibility of participation in

the management and control of the affairs of their company and, consequently, leaving the traditional relationship of domination and submission virtually unchanged. In these cases (and they constitute the majority), there can be no talk of "democratic ownership"; the sharing of capital with workers is more likely to represent an additional financial incentive with the aim of reinforcing worker motivation. Worker-owners are actually nothing more than ordinary hired workers.

Therefore, the capitalist method of production's inherent conflict between the interests of labor and employers cannot be eliminated by including workers among the owners of companies. In companies with worker participation this conflict can be reduced or can undergo changes in form, but it never disappears and it can even become more acute. At the same time, we cannot deny that employers who give employees part of the stock in their companies can often achieve the deeper involvement of workers in the interests of their corporations and, consequently, can eventually achieve the exploitation of labor to an even greater extent.

#### Footnotes

1. K. Frieden, "Workplace Democracy and Productivity," Wash., 1982, p 7.

2. "Employee Ownership," National Center for Employee Ownership, Arlington (Virginia), 1985, p 53.

3. The passage of this law (and of several subsequent laws on stock redistribution plans) was initiated by Senator R. Long. The man who inspired him and who came up with this idea is L. Kelso, an attorney and philosopher from California who developed the idea of the "beneficial effects" of the partial transfer of ownership rights to workers back in the 1950's. Kelso himself based his works, especially his book "The Capitalist Manifesto" (L. Kelso and M. Adler, "The Capitalist Manifesto," N.Y., 1958) on ideas which were first expressed in J. Mill's "Elements of Political Economy" and were first implemented in factories in New England in the 1840's.

In "The Capitalist Manifesto" and in "Democracy and Economic Power" (L. Kelso and P. Kelso, "Democracy and Economic Power," Cambridge, Mass., 1986), L. Kelso took an essentially petty bourgeois position and proposed that the socialist movement be countered with his own plan to "save" capitalism by dividing "excessively" concentrated ownership and eventually turning all workers and employees into "capital-workers" [in English].

4. *Business Week*, 15 April 1985, p 54.

5. "Employee Ownership," p 56.

6. *The New York Times*, 6 January 1985.

7. "Employee Ownership," p 5.

8. *Ibid.*, p 56.

9. *Ibid.*, pp 11, 57.

10. *The New York Times*, 6 January 1985.

11. *Ibid.*, 6 August 1984; 30 December 1984.

12. *Ibid.*, 6 January 1985.

13. "Employee Ownership," p 15.

14. *Ibid.*, p 12.

15. *Business Week*, 15 April 1985, p 55.

16. *Ibid.*

17. According to some estimates, only 30 percent of the companies with ESOP's had unions at the beginning of the 1980's (K. Frieden, *Op. cit.*, p 16).

18. *Business Week*, 15 April 1985, p 54.

19. *Ibid.*, p 57.

20. L. Kelso and P. Kelso, *Op. cit.*, pp 75-117.

21. *Business Week*, 15 April 1985, p 54.

22. "Statistical Abstract of the United States 1986," p 433.

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#### Harvard Professor on Improving U.S.-Soviet Relations

18030011d Moscow SSHA: EKONOMIKA, POLITIKA, IDEOLOGIYA in Russian No 7, Jul 87 (signed to press 18 Jun 87) pp 54-63

[Article by Roger Fisher, professor of law at Harvard University, former counsel to several U.S. government agencies, renowned expert on international negotiations, and author of several works, including the book "International Conflict": "New Way of Thinking in American-Soviet Relations (What is a 'Good Relationship' and How Can It be Built?)" ; first paragraph is editor's note]

[Text] In spite of some controversial statements, this article by Professor Fisher, which was written especially for our journal, reveals signs of a new way of political thinking in the United States.

It is probable that no other aspect of the international situation is as important to the future of the world as American-Soviet relations. In one way or another, we have to get along with one another. The preservation of life in each of our two countries will depend on the decisions made (or, more likely, not made) in the capital of the other state. Whether we like it or not, we have an ongoing relationship; we interact because we have to interact. Only the nature of this relationship is in question. And this will depend on the kind of relationship we want and the way we go about building it.

Many have only the vaguest idea of what we mean when we say that we want to improve relations between our two countries. No dictionary can tell us the meaning of this improvement. We are striving for a specific goal. We are striving for the kind of relationship that will be in our best interests. What are the interests a good relationship should serve?

Our relations encompass many extremely important interests in such areas as security, economic prosperity, cultural exchanges, actions in third countries, human rights, and ideology. We want these interests to be taken into account in our relations. Each of our two countries would like to feel more secure. We want to be in a position in which our conflicting interests can be given as much consideration as possible and our common interests can be firmly established.

We must admit that we are not using the right methods to establish our common interests. For example, we have spent billions of rubles and dollars to strengthen the security of our two countries, but this has only made the world situation more alarming. And if we ever have to resort to the use of the costly military equipment financed with these sums, we will be much worse off than we are today. Some say that Soviet and American nuclear arms are not a waste of money because they deter each side from using its nuclear weapons. But if our two countries could make the necessary combined effort, I am certain that we can only gain from this, and even if we do lose, we will lose much less.

We are also using the wrong methods to assert our interests in other areas. Consider, for example, the example of Afghanistan, where resistance forces armed with weapons from the United States and other countries are fighting a war they cannot win, and where the Soviet Union is involved in a war it does not need.

Why does everything turn out so wrong?

There is no question that results in many areas could be much better. We have failed miserably in trade, in the exchange of technology, and in scientific exchanges. Why has this happened? Why have the results of our efforts been so pitiful in matters concerning our vital interests?

I would like to suggest four possible reasons:

1. We focus completely on the essence of the problem to be solved instead of on the process of resolution.

2. We focus completely on deciding which of us is right instead of how our differences might be resolved.

3. We do not have a clear understanding of our goal, of what we mean when we speak of the "improvement of relations."

4. We do not have a precise strategy for the improvement of relations.

**1. Insufficient concentration on the problem-solving process.** As a rule, we are inclined to focus all of our attention on the final goal instead of on what its attainment will entail. In this respect, we are like hungry people who talk about a meal instead of talking about how it can be prepared, or like children who talk about a toy instead of considering ways of saving up enough money to buy it. We concern ourselves with vital issues, such as arms control, security, trade, and human rights—i.e., with various issues we are trying to resolve. At the same time, however, we are closing our eyes to what their resolution will require. In comparison to questions of ideology, human rights, trade, and the tens of thousands of nuclear warheads, questions connected with the process of resolution—that is, with the interaction of our two governments—indisputably constitute only a small part of our overall relationship. The way in which we interact and surmount our differences, however, is a key factor in the successful development and the stability of our relations. This applies to all types of relations—international as well as personal and commercial. If we cannot settle our differences, even such minor ones as arguments about what color the kitchen should be painted, our relations could be in danger. If we can surmount differences, we can find the right and intelligent solutions to even the fundamental problems connected with our ideology, our values, religion, and culture.

**2. The attempt to prove that we are right.** One method of surmounting differences of opinion consists in simply trying to convince the other side that we are right. Attempts to convince the other side that it is wrong, however, are rarely effective. Many disagreements over who is right sound like attempts to prove that white is a better color than red. This immediately raises questions: For whom is it better? Why? Under what circumstances? Something much more important than any conclusion about the superior position of one of the sides is the question of how we can deal with the immutable fact that the two sides—the United States and the Soviet Union—have different opinions on an entire series of problems. We need a good relationship to be able to answer this question, but we still do not know what this "good relationship" is.

**3. The lack of a precise understanding of what a "good relationship" is.** It is hard to do anything well if you do not know what you are trying to do. One of the reasons

that we are having so much trouble organizing our interaction is the absence of a clear understanding of what a good relationship might be. The field of international relations is vast, and scientists have been studying these relations for many years. If we ask a specialist about the criteria for a good relationship (for example, if we ask him whether relations between Canada and China are better than relations between France and Brazil), we are unlikely to receive a clear-cut answer. Only a few specialists have specific views on this matter.

It is not enough to know the direction we want to take. When I was in Moscow a few months ago, one of my Soviet colleagues told me that he agreed with many of my views; implementing them would be the hard thing. I realize the difficulty of this problem, but if we do not know what we want we will be in an even more difficult position. Let us analyze exactly what we mean when we talk about the desirability of establishing a good relationship.

Many define a good relationship as a situation in which the other side acts the way we want it to. We have heard fathers say: "I have a wonderful relationship with my son. He does everything I tell him to do." Some Americans apparently want the American-Soviet relationship to be exactly like this. They feel that the Soviet Union will have to institute a free market economy and a two-party political system if it wants to maintain a good relationship with the United States.

One of my students once introduced his bride to me. After she left, he told me: "She is wonderful. She only has to change in three ways and then our relationship will be ideal." I hope that after our discussion he realized that the best way of improving a relationship is to be willing to change oneself, and not to force the other side to change its behavior.

Others feel that friendship should be the goal of a good relationship. According to them, we should like each other and take pleasure in each other's company. "We should be friendly and toast each other with champagne. We should smile and compliment each other. This is how we will solve the problem of a good relationship." Of course, we all want to have friends, but our friendship will not last unless we solve some difficult problems. It is even more important to be able to maintain a good relationship with the people we see as our enemies today. It would be wrong to display a willingness to settle differences only with our friends.

Some equate a good relationship with the other side's willingness to agree with us and they also believe that it is possible to express disapproval of the other side and thereby sever the relationship. Others feel that a good relationship should mean the end of all disagreements. This idea is also obviously false. It is not likely that we will ever be able to put an end to all of our disagreements. Our two countries have fundamental differences

of opinion with regard to our values, views, and interests. Besides this, more intense interaction by the United States and the Soviet Union will be accompanied by more dramatic clashes of our diverging interests. Whether the matter in question is trade, foreign travel, drug addiction, alcoholism, movies, music, student youth, or emigration, more and more new situations in which our interests will diverge are bound to emerge.

What should our goal be?

A good relationship, which would allow the United States and the Soviet Union to take each other's important interests into account, does not fall into any of the categories listed above. The kind of working relationship we need would be a process leading to the achievement of better results, but results favoring one side could be less favorable for the other. We need the kind of process of interaction that would lead to the achievement of more favorable results for both sides with minimum expenditures and with consideration for the fact that our interests often do not coincide. We need the kind of relationship in which results would not be favorable for one side and less favorable for the other.

This is what our goal should be. We need a better method of finding solutions at a lower cost. We need to learn to solve all major problems as far as trade and security are concerned and problems connected with "Star Wars" research. In the area of "Star Wars," for example, we could probably find the kind of solution that would allow scientists to conduct certain types of research on the condition that they would not stimulate a new arms race or create a higher risk of a first strike. Our interests in all major areas will create problems requiring joint resolution. We must improve the problem-solving process, which is part of our relationship.

What does this process require of us? First of all, it requires a realization of the fact that we do not have much in the way of a good working relationship yet. After all, it is not strictly true that a good road must necessarily run through a meadow. Of course, it is easier to maintain a good relationship with friends than with apparent adversaries, just as it is easier to build a road across meadows than across mountains. The road across the mountains, however, is quite simply more important than the road running through the meadow. We must learn to take the right approach to serious disagreements. The more serious our disagreements are, the more important it is to learn to surmount them intelligently. How can we measure our ability to surmount our differences?

I would like to make a few preliminary observations on what the final goal of a good relationship should be and then discuss certain elements in detail.

Our ability to surmount our differences will depend on the degree to which we can display:



(1) Rationality, (2) mutual understanding, (3) the willingness to maintain contact with one another, (4) honesty and trust, (5) the willingness to exert influence without resorting to coercion, and (6) receptivity.

**1. Rationality.** It is difficult to solve a problem when emotions prevail over reason. Spite, fear, and hatred disrupt the process of the rational search for solutions. Of course, emotions are an important part of our relationship, but the degree of rationality we are willing to display is the most important element of the problem-solving process.

**2. Mutual understanding.** We could hardly expect to solve any problem without understanding it completely. All of the difficulty frequently stems from our different interpretations of the same situation. Under these conditions, we must have an unbiased understanding of how the other side is approaching a specific situation, how much it is bothered by the situation, and which of its interests and fundamental views are connected with the situation. Until we have this kind of mutual understanding we will not be able to fully comprehend the problems we try to solve. Our ability to surmount our differences will depend on each side's awareness of the other side's approach to a specific problem and its ideas about possible solutions.

**3. Maintenance of contact with one another.** Mutual understanding depends, in turn, on contact. Everyone realizes the importance of contacts, but here I am referring specifically to bilateral communication. Unfortunately, people in the United States and the Soviet Union often regard this communication as a form of onesided declarations. Sometimes a man who lays down the law to others without taking the trouble to listen to their opinions is called a "great communicator." The quality of a relationship, however, depends on the quality of two-way communication. Good communication presupposes the ability to express one's own point of view and listen to the other's point of view; to hear what is said and what is left unsaid. This kind of communication is essential for the comprehension of any specific situation and for the joint search for the right solutions.

**4. Honesty and trust.** Dishonest or insincere contacts are often absolutely counterproductive. It is better not to know something than to falsely assume that we do know something. Honesty does not necessarily mean the disclosure of all the facts. Sometimes it is enough to drop a hint that some facts will remain undisclosed. For example, a municipal chief of police is doing the right thing when he refuses to make a full report on the number of plainclothes detectives he has working for him, their names, or the neighborhoods where they have been assigned. There is nothing wrong with the suggestion that not all of the facts are being revealed in their entirety.

Honesty is closely related to a reasonable degree of trust. This kind of trust helps to maintain any relationship, but trusting people who do not deserve to be trusted can

impede the problem-solving process. A good relationship cannot be built on excessive trust. Any retailer who advertises his unlimited trust of customers and his willingness to sell them goods on credit without asking too many questions could soon go bankrupt. Trust is important, but it must be well-founded.

**5. Influence without coercion.** The ability of both sides to arrive at joint decisions will also depend on whether they are more inclined to rely on persuasion, the force of example, inspiration, and creative ideas than on threats. Solutions will be acceptable to both sides only if they are the result of the kind of reciprocal influence that excludes coercive methods.

**6. Receptivity.** The last aspect is receptivity. If we want to surmount our differences successfully, we must accept each other as people worth dealing with, even though we are not alike in all respects. There is no question that it is possible to maintain a good working relationship between peoples or countries differing considerably from one another in terms of their resources, knowledge, and prestige. The main thing is that each side must regard the other as a side whose interests and views are worthy of consideration. We must accept you as people we can learn something from today. A knowledge of your views and opinions can help us make the right decisions.

Even if I should think that I am absolutely right and you are absolutely wrong, I must be willing at any time to accept the possibility that I am wrong and you are right. Even when a 4-year-old child suddenly charges out of the kitchen, before we ask him to settle down we must consider for a moment that the child might know something we do not know and that he might want to tell us the kitchen is on fire.

What I am trying to say is that we must remain open to receptivity. I would like to hope that the glasnost Moscow is displaying today is not confined to the mere publication of certain facts. I hope that glasnost will also mean that the Soviet people will be receptive to new ideas and willing to learn something new. M.S. Gorbachev has asked the Soviet leaders to be receptive to criticism. All of us must also be receptive to new possibilities. A relationship presupposing the search for solutions and the ability to surmount differences will require us to continue learning things. We must realize that we could know more in the future than we know today. In any relationship it would be insulting to assume that any remarks the other makes do not deserve consideration.

Let us take a look at the features of a bad working relationship and a good working relationship as they apply to American-Soviet relations today and the problem-solving process.



Bad working relationship	Good working relationship
Reaction	Goal-orientation
Irrationality	Rationality
Lack of understanding	Mutual understanding
Unwillingness to listen to each other	Effective communication
Deception	Honesty
Coercion	Persuasion
Rejection	Receptivity

If this is a correct analysis, then our goal, regardless of how serious and sizable our differences might be, should consist in achieving a form of interaction which includes all of the elements listed in the right- hand column.

### Absence of a Precise Strategy

How can this goal be attained? Four possible strategies, pointing up the difficult alternatives the governments of our two countries face, are listed below.

**1. The attempt to "buy" a good relationship.** One method consists in trying to "buy" a good relationship. Last year the Soviet Union apparently tried to "buy" a good relationship with the United States by making several major concessions. One was the unilateral suspension of nuclear tests. In Geneva and Reykjavik the Soviet Union apparently decided to make concessions on a number of major issues in the hope that each concession would improve its working relationship with the United States.

But these attempts were futile. When the Soviet Union begins to make concessions on important matters in response to the belligerent behavior of the United States, many Americans are inclined to view the Soviet Union's reasonable actions as a result of President Reagan's harsh rhetoric and of the large U.S. military expenditures. They feel that this is the purpose of higher defense spending.

B.F. Skinner tells us that rewarding bad behavior will not improve it. If I have a bad relationship with someone, I am not likely to improve it by making unilateral and sizable concessions.

**2. The promise of a good relationship as a reward.** The opposite strategy presupposes attempts to gain sizable concessions in exchange for the promise to maintain a good relationship after these concessions have been made. The United States (which has no desire to "appease" the Soviet Union) drops direct hints that the Soviet Union could have a better relationship with the United States if it were to make sizable concessions. "If you get out of Afghanistan, free more dissidents, and agree with our fundamental views, this will help to improve American-Soviet relations," we tell the Soviet Union.

But when we imply that we are not interested in a relationship with the Soviet Union unless it makes concessions to us, we are also hurting this relationship. After all, attempts to solicit sizable concessions could also be futile, but they are unlikely to improve a relationship under any conditions.

The common flaw of these two strategies is their tendency to lump together the maintenance of relations and issues of vital importance to each side. They confuse the content of the vital interests of the United States and the Soviet Union with the need to consider these interests. It is as if one side is telling the other that everything will depend on absolute agreement.

Another equally bad approach consists in basing the strategy of interrelations on mutuality.

To avoid possible misunderstandings, I would like to immediately clarify exactly what I mean. Mutuality is often extremely important in matters of substance. For example, "we will reduce our missiles by 50 percent if you reduce your missiles by 50 percent." It is also an obvious fact that one of our goals could be a working relationship based on mutuality. We can surmount differences more successfully in the presence of mutual understanding, mutual trust, mutual communication, etc., but the fact that mutuality is desirable in matters of substance and that we would like to have a relationship based on mutuality does not mean that the process of building this relationship should be based on the principle of mutuality. What is more, the choice of the principle of mutuality as the fundamental principle of the development of relations would doom the process to failure from the very beginning. Now let us analyze two different varieties of the course based on mutuality.

**3. Preoccupation with the "golden rule."** First I would like to explain what I mean by preoccupation with the "golden rule." This rule is based on the optimism of those who propose: "Let us treat them the way we want them to treat us and hope for the best." A preoccupation with the "golden rule" could lead to the following situations.

**1) Rationality.** "Because we want all of your actions to be based on affection for us, we will base all of our actions on affection for you instead of on reason."

**2) Mutual understanding.** "Because we want you to agree with our interpretation of the situation, we will accept your interpretation of the situation."

**3) Contacts.** "Because we do not want you to bother us with various problems, we should not have to discuss our differences of opinion with you."

**4) Honesty and trust.** "Because we want you to trust us completely, we will trust you completely."

5) **Coercion/Persuasion.** "Because we want you to make concessions to us, we will make concessions to you."

6) **Receptivity.** "Because we want you to accept our interests and views as superior ones, we will accept your interests and views as superior ones."

Of course, no one would seriously recommend this strategy, but some peace activists have been accused of taking this approach. And because this course seems absolutely senseless, others propose the direct opposite—another course based on the principle of mutuality.

#### **4. The strategy of hostility based on the principle of "an eye for an eye."**

1) **Rationality.** "Because your thinking is governed by spiteful feelings, we will be guided by spite in our thinking."

2) **Mutual understanding.** "Because you misunderstand us, we will view your actions in the most distorted light and this will certainly lead to a lack of mutual understanding."

3) **Contacts.** "Because you do not listen to us, we will not listen to you."

4) **Honesty and trust.** "Because you are obviously trying to deceive us, we will try to deceive you."

5) **Influence excluding coercion.** "Because you are trying to exert pressure on us, we will try to exert pressure on you."

6) **Receptivity.** "Because you regard our views as absolutely undeserving of consideration, we will regard your views in the same way."

Each country will inevitably know more about its own views than about the views of any other country. Our behavior will seem more logical and justifiable to us than the behavior of our probable adversary. Because of this onesided approach, we will behave as badly as we think others are behaving. To an objective observer, however, our behavior will look worse than the behavior of others, and if the other side takes the same course, our relations will deteriorate more and more.

How can the rejection of the principle of mutuality in the process of building a relationship be equated with arguments in favor of the "eye-for-an-eye" policy line? The psychological model of the two convicts which was used in analyzing the "eye-for-an-eye" policy line suggests that the two sides can communicate with each other either by making sizable concessions (that is, by giving each other gifts in the hope that everything will turn out well) or by seriously injuring the interests of the other side (which entails considerable expense). If this is regarded as the only method of communication between the sides, then it is possible that the "eye-for-an-eye"

policy line is the best of all the bad lines. This model, however, presupposes the impossibility of separating matters of substance from matters of building relations and underscores the possibility of communication entailing either high costs or sizable concessions. Fortunately, better forms of communication are possible in the real world. We can and must communicate with each other in a variety of ways.

We are still faced by a dilemma, however. After all, our goal consists in a mutual search for solutions within the framework of our relationship. We want communication between the United States and the Soviet Union to be effective and bilateral. We are striving for the kind of situation in which we will have mutual trust, mutual understanding, and mutual receptivity, in which we will try to influence one another without resorting to coercive methods. But if we take the first step in the hope that the other side will not let us down, we could be trapped. If, on the other hand, we behave no better than we think others are behaving, the relationship will probably continue to deteriorate. This is our problem. If the successful construction of a relationship is to be based neither on actions similar to the actions of the other side nor on the hope that the other side will act in the same way that we act, how should a relationship be built?

**Wholly and completely constructive behavior.** It appears that the best strategy is a strategy presupposing an unconditionally constructive approach. In other words, we must act only in ways benefiting our relationship and us, regardless of the other side's response to these actions. We must act in ways that are wholly and completely constructive in all areas of our working relationship. These actions will benefit both our relationship and us. We will become stronger regardless of how the other side responds to our actions. This strategy entails no risk because either of the sides will gain from its actions regardless of whether the other side follows its example or not. This strategy could have the following appearance.

#### **Strategy of Unconditionally Constructive Behavior**

1. **Rationality.** Even if they are guided by their emotions, we should be rational.

2. **Mutual understanding.** Even if they misunderstand us, we should try to understand them.

3. **Contacts.** Even if they do not listen to us, we must consult them before making decisions on any matters that might affect them.

4. **Honesty and trust.** Even if they try to deceive us, we must remain honest.

5. **Influence excluding coercive methods.** Even if they try to exert pressure on us, we should not give up persuasive methods in the attempt to change their minds.

**6. Receptivity.** Even if they reject our fears as something unworthy of consideration, we should be sensitive to their feelings and be willing to learn something from them.

The relationship between an adult and a child can serve as an illustration of this approach. If the child throws a tantrum, it is not advisable for the adult to throw a tantrum of his own in response. No matter how angry the child becomes, the adult who wishes to find the right solution must act rationally. Even if the adult should become furious, he must not lose control of himself and must not let his anger rule his behavior.

By the same token, if others misunderstand us, we must try to understand their views instead of rejecting them outright or, on the contrary, accepting them completely as the truth. The better we understand them, the better our relationship will be and the better things will be for us, even if they never manage to understand us. There will be much less danger of a serious conflict if at least one of the sides understands the other.

Even if they do not listen to us, we should try to pay attention to their point of view. The other side should always be consulted before a decision is made. This is a good fundamental rule of effective communication. Of course, this does not mean that the other side should have the right to veto our decisions. It simply means that the opinions of the other side should be clarified.

When the United States decided to reduce the number of personnel in the USSR mission to the United Nations in New York, it apparently made this decision unilaterally, without consulting the Soviet Union in advance. I do not understand why we did not discuss the matter with the Soviet Government. The Soviet Government then followed the example of the American Government and made a similar decision with regard to the United States. All Soviet personnel stopped working for the U.S. Embassy in Moscow. It is true that the Soviet Union could have asked us: "Is this really what you wanted? Is there no other possibility? Of course, we have the right to do this, but do we really have no better options?"

The relationship between our countries does not depend on the number of Soviet citizens working in New York or in the American Embassy in Moscow. What is important is the way the governments of our two countries maintain contact with one another and approach areas in which our interests and views diverge. Consultation is the best way of maintaining contact. It is not enough to merely state our opinions. We must take an interest in the opinions of others.

Even if the other side seems to be deceiving you, you do not necessarily have to stay deceived, deceive it in exchange, or take everything you are told on faith. It would be better if you could be trusted. In this case, it is possible that we will sacrifice only what we have been able to gain through deception. What we win, on the

other hand, is the force of conviction backed up by trustworthiness. We will be even more trustworthy if we make fewer promises but always keep them. When our reliability is acknowledged, this will benefit our relationship and us. Our statements will only sound more truthful.

In the process of building a relationship, this strategy of unconditionally constructive behavior seems to be the best of all possible strategies. When this strategy is conducted, each country retains the right to make the necessary decisions. Decisions which are wrong because not all of the facts are known become less probable. A good working relationship will allow us to strengthen our security considerably. England has enough nuclear weapons to destroy most of the big cities in the United States, but it is unlikely that any American suffers sleepless nights because of the fear that M. Thatcher will push the launch button. What is the reason for this? Our countries were once adversaries, but now we have the kind of relationship with England in which nuclear weapons have essentially no effect on our treatment of one another.

The fundamental assumption that security depends on military equipment also needs to be reassessed. The United States has had many enemies since 1776—England, Mexico, Spain, Germany, Italy, Japan, and China (during the Korean War). Now the United States maintains relationships with all of these countries that are not affected in any way by nuclear weapons. Furthermore, this is not due to the number of nuclear weapons, but to the fact that we have no intention of relying on nuclear weapons to settle our differences with these countries. After all, we do not ask the Protestants or the Catholics which of them has more nuclear weapons.

The United States is now maintaining a working relationship with 10 or more countries which were once its adversaries. Now we only have to build a relationship with one large and important country, the USSR, so let us start doing this in earnest.

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**Survey of U.S. Presidential Candidates**  
*18030011e Moscow SSHA: EKONOMIKA, POLITIKA, IDEOLOGIYA in Russian No 7, Jul 87 (signed to press 18 Jun 87) pp 73-79*

[Article by V.S. Anichkina: "On the Road to the White House"]

[Text] The 1986 "midterm" elections<sup>1</sup> were hardly over before the United States was involved in a new election campaign—this time for the presidency.

Of course, the new president will not be elected for a long time: The multiple stages of the electoral procedure stipulated in the Constitution of the United States include the following: the announcement of candidacy by contenders for the White House, the primary elections and conventions in states, the national party conventions, where party nominees are chosen, the national elections for electors (on the first Tuesday following the first Monday in November—i.e., 8 November 1988) and, finally, meetings of the Electoral College in each state and the announcement of the results of their vote. It is a long road requiring large material expenditures and considerable emotional and physical strength. At this time, however, all of the people who have announced their candidacy or plan to do so in the near future are full of energy and hope, or even mere fervor, because some of them obviously have no chance of winning.

At this time, in the middle of 1987, almost a year and a half before the elections, the struggle is being waged within each of the two main bourgeois parties—Democratic and Republican. The Republican and Democratic contenders are preparing for battles in each state. The first stops along the way will be Iowa and New Hampshire. Party conventions will be held in Iowa on 8 February next year to nominate candidates. Primary elections will be held in New Hampshire on 16 February. It is in this state that the election "season" has traditionally begun, and it is jealously hanging on to this distinction. The voters in New Hampshire who usually vote for Republicans, in the words of *Philadelphia Inquirer* correspondent L. Eichel, "generally hold conservative, very conservative, or extremely conservative views." The publisher of Manchester's *Union Leader* newspaper, W. Loeb, sets the tone in the state. He and his newspaper play an important role in shaping the mood of the voters before the primaries. "We need someone who will take a resolute stand against communism, because force is the only thing the communists understand," an editorial in this newspaper declared.

The strongest Republican competitor for this role is Jack Kemp. This congressman from New York intended to run for the presidency in 1980 but then withdrew from the race in Reagan's favor. Now he takes credit for this at every opportunity, and he has already made campaign speeches in Washington and in Manchester (New Hampshire), in Boston and Buffalo (New York), and in several other places. "I am the only candidate who supported Reagan in 1980 and I am the only candidate who helped to compose Reagan's campaign platform in 1980 and 1984," Kemp asserts. "I am the only Republican candidate who did not vote for higher taxes or cuts in social spending.... And I am the only one who wants to put the question of the quickest possible development and deployment of the SDI to a national referendum."

The group of issues on which Kemp is building his campaign is gradually acquiring distinct outlines. The dominant position is occupied, at least at this time, by

anticommunism, which, as Kemp's campaign manager R. Stone said, constitutes "one of the fundamental principles of the Republican Right." It was precisely this feature of Kemp's initial campaign statements that L. Eichel underscored when he wrote that Kemp "is casting all sorts of aspersions on the USSR in an attempt to arouse suspicions about the sincerity of the Soviet efforts to achieve disarmament."

Incidentally, Kemp is not the only one. The same Eichel observed that "the presidential candidates from the Republican Party are making a mighty effort to outdo one another in their anticommunist rhetoric and their avowed distrust of the Soviet leadership."

A contender on the extreme right who has not joined the race officially yet but has actually been campaigning since last fall is the Reverend Marion (Pat) Robertson. Speaking in Nashua (New Hampshire) in March, he frankly said that his goal is "the downfall of communism in all parts of the world, including the USSR." This descendant of the old Virginia aristocracy with a law degree from Yale and remarkable skill in the art of public speaking is not a mere neighborhood minister, but a television evangelist. He created what *Dissent* magazine describes as "a religious commercial television empire" with a gross income of over 200 million dollars a year and is constantly gaining stronger support among conservative Fundamentalists and Protestants.

This is why he established the "Liberty Council" (!). He is supported by Robert Grant, the head of a religious lobbying organization and a self-styled judge of the "moral excellence" of elected officials, and by clergyman Tim Leahy, the head of the Coalition for Traditional American Values. In February the Robertson camp was also joined by another influential American television evangelist, Jimmy Swaggart from Louisiana. This belligerent Pentecostal preacher with a talent for incendiary speech preaches intolerance for other religions (he has called the Catholic Church "non-Christian") and support for rightwing regimes in Latin America. Another of Robertson's steadfast supporters is clergyman Jack Buckingham. "We need someone to put us back on the road to righteousness," he recently declared when he was interviewed by *Christianity Today*. "Many Christians, and I am one of them, are realizing that God has chosen Robertson to do this."

Does Kemp or Robertson have any chance of winning?

Robertson, according to *Dissent* magazine, "appeals to most of the people on the religious right, who want changes in policy on such vital issues as abortion, prayer in the schools, tax credits for tuition, etc." At an annual conference of moderate Republicans in Oregon in March, Robertson did not receive a single vote....

"Kemp praises Reagan as the best president of our century," James Reston wrote. "He is hoping that the so-called conservative 'Reagan revolution' has not ended

and will continue after Reagan leaves office.... This might be a good strategy for winning support at the Republican convention, which is more conservative than the party or the voters as a whole, but it is a bad strategy for beating the Democrats."

The right wing is making every effort to perpetuate the "Reagan revolution" and to sow distrust of the current disarmament talks, particularly the talks on medium-range missiles in Europe. A poll conducted by Penn & Schoen Associates in April 1987 for the notorious Committee on the Present Danger is indicative in this respect. The wording of the questions is interesting: "Did 'Irangate' influence the administration's position in its talks with the USSR on arms control?" (64 percent—yes, 32 percent—no); "Could a scandal cause the administration to accept the Soviet proposals?" (31 percent—yes, 57 percent—no); "Is the USSR trying to take advantage of the situation?" (57 percent—yes, 33 percent—no); "Are you for or against limits (!) on medium-range missiles in Europe?" (72 percent—for, 21 percent—against). But when the same question was asked in the provocative wording characteristic of all of the activities of the Committee on the Present Danger—"Are you for or against an agreement on medium-range missiles if it will give the Soviet Union an advantage in other nuclear arms in Europe or in conventional arms?—the response was the one predetermined by the wording: in the case of nuclear arms, only 12 percent were for the agreement and 83 percent were against it, and in the case of conventional arms 16 percent were for the agreement and 77 percent were against it.

Two other Republican candidates—Alexander Haig and Pierre du Pont—also entered the presidential campaign with pointedly anti-Soviet statements.

Haig is a familiar name. His service record includes such positions as White House chief of staff under R. Nixon and G. Ford, supreme allied commander of the NATO armed forces in Europe (1974-1979), and secretary of state in the first year and a half of the Reagan presidency. In the 1980 campaign Haig's name remained on the list of potential presidential candidates for a long time but he never announced his candidacy officially, although many observers said that this four-star general, who was then just over 50 years old, had "the makings of an administrator, combined with military and political experience." Besides this, as an executive of the United Technologies company, he acquired influence and contacts in industry.

He still has all of this, but the situation in the United States is changing and is quite different from what it was in the late 1970's. At that time many people on the right rode the crest of the "conservative wave" onto the political stage. Now this wave has peaked and it is possible that Haig's day is also over. Besides this,

"Irangate" is a reminder of the Watergate scandal, in which Haig was directly involved: The press says that he was the one who influenced G. Ford to "pardon" former President Nixon.

As for Pierre du Pont, a member of one of the richest families in the United States and the governor of Delaware from 1977 to 1980, he, as the *Christian Science Monitor* remarked last summer, is earnestly "courting the Republican right wing." Du Pont probably has the most detailed platform of any rightwing candidate. It includes such points as "voluntary prayer in the schools," federal grants for private and parochial schools as well as public schools, and the elevation of educational standards by replacing "machine shop, photography, and home economics...with chemistry, foreign languages, and computer sciences." He advocates even greater deregulation in the economy, including the financial sector, tax cuts, and cuts in federal spending. In the social sphere he wants retired people to pay their own medical bills (i.e., he wants to abolish Medicare); in foreign policy, he advocates stronger support for the "freedom fighters" in Nicaragua, Angola, and Afghanistan.

Du Pont has virtually no chance of winning, but he was one of the first to announce his candidacy, and he did it last year. He reminds people of the attempts of another Republican, Harold Stassen, to run for the presidency. This politician, who was once the governor of Minnesota, regularly announced his candidacy from 1952 to 1968 but was never nominated by his party. *Newsweek* correspondent S. Olson even coined the term "Stassen-type candidate." (Stassen called himself a "candidate" again in the 1980 elections.) There are many contenders of this type in the current campaign.

Another candidate on the right is Vice-President George Bush. This former top-level diplomat and director of the CIA is seen by the average voter as the heir apparent to everything connected with Reagan. It goes without saying that his chances will depend largely on the balance of Reagan's achievements in November 1988. In March 1987 he was the leading Republican contender for the White House, winning around 47 percent of the vote in various polls, but "Irangate" undermined his position greatly.

Do the voters who support the Republican Party have an alternative or will they have to choose a "conservative, very conservative, or extremely conservative" candidate? The results of a survey conducted at a Republican conference in Oregon provide a partial answer to this question. This forum, known as the Dorchester Conference and convened annually, was founded 23 years ago by then Senator from Oregon R. Packwood and is thought to express the views of moderate Republicans. Robert Dole won the highest number of votes (78) at the conference, Howard Baker came in second (with 65 votes), and G. Bush and J. Kemp won 55 votes apiece. As

we can see, although more people voted for Dole than for anyone else, the majority of the moderate Republicans surveyed at the conference supported rightwing politicians.

Dole is the Republican leader in the Senate and is also a conservative Republican. Like Kemp, he was a candidate in 1980 and was also on the ballot in the New Hampshire primaries, but gave up quickly after he was defeated. According to *Time* magazine, Dole's chances could be improved by Bush's close association with Reagan and "Irangate." Dole is also connected with the Reagan Administration, however: As the Republican leader in the Senate, he has served as the middleman between the President and the legislators more than once. Besides this, Dole is still hesitant and has not made the decision to enter the race officially. He does not have a campaign staff of his own. Furthermore, he has already been defeated twice: in 1976, when he ran for vice-president as Ford's "running-mate," and in 1980, when he was a candidate for the presidency.

Since the beginning of 1987 American correspondents have been making references to the coming "change of historical cycles." According to this theory, formulated by historian Arthur Schlesinger and later developed by his son, Arthur Schlesinger, Jr., around every 30 years the "Republican cycle" (the Eisenhower years in the 1950's and the Reagan years in the 1980's) is succeeded by a "Democratic cycle" in the United States, at which time Democrats take the political lead (according to Schlesinger, this is true of Franklin Roosevelt's 1930's and of the 1960's, which are associated with John Kennedy's name). In accordance with this theory, observers say that there was a shift in the attitudes of the American public somewhere around the beginning of 1987 from "Reaganism," with its concentration on "self-congratulation and jingoism," to the "new ideas" associated with the Democrats.

The author of an analytical article in the 30 March issue of *Time* magazine, Lance Morrow, writes: "There are signs of a fundamental change in the nation's political weather, a philosophical mood shift.... Even without Iran, the era of Reagan is passing." Morrow compares the "era of Reagan" to a "long vacation" or "picnic" for which America paid by doubling the national debt to 2.2 trillion dollars. Now the nation is coming back from the picnic to discover that all the old problems are still there. "Education must have a priority....," he writes. "America can no longer afford racism and a neglect of the underclass.... These are problems that must be solved as a matter of America's long-term economic survival." Although such elements of "Reaganism" as family values, school prayer, and the abortion issue remain powerful, the moral climate in the country, Morrow believes, is putting other problems on the agenda: the plight of the homeless, racism, toxic waste, Wall Street swindles, AIDS, the national debt, and nuclear disarmament. This is a shift to the "public interest."

The symptoms of this shift are becoming increasingly visible. A poll conducted in February by Yankelovich Clancy Shulman indicated that 77 percent of the respondents wanted the government to play a more active role in such spheres as housing, health care, aid to the poor, and education; 56 percent wanted the next president to spend more on social needs; 61 percent expressed their disapproval of the cuts in social spending during the Reagan years.

Observers categorize the congressional passage of the Clean Water Bill, overriding a presidential veto ("the public feels that clean water is not a luxury, but a vital necessity, and is willing to make sacrifices for it," *Time* commented), and the bill for emergency aid to the homeless (the 50 million dollars stipulated in the bill is a negligible sum, the press commented, but the attitude toward this problem was indicative in itself: "Americans are depressed by the sight of people sleeping on subway grates"), as symptoms of the public mood shift.

The generation which was formed by the "Vietnam era" will begin taking over government, Morrow says. According to this analyst, the four "Oscars" awarded to the antiwar movie "Platoon" in 1987 suggest "the return of the ghost of Vietnam," but not in the form of the "cretinous revenge fantasies of Sylvester Stallone" (who portrays Rambo in the series of movies with the same name—V.A.), but as an acknowledgement of the "ambiguous mess and tragedy of America's mission in Vietnam."

This is an eloquent admission! Particularly in view of the fact that the Reagan Administration has made a mighty effort to put an end to the "Vietnam syndrome" for more than 6 years now.

Therefore, people in the United States are waiting for the next "cycle." Reston wrote that "in the campaign battle between the parties, the Republicans will emphasize private interests and the Democrats will stress public aspirations." The cycle of American history, he says, "will favor the Democrats again." Will the Democrats be able to seize this opportunity? Like the Republicans, they have many contenders for the presidency.

Until the beginning of May the leader, judging by public opinion polls, was former Senator Gary Hart from Colorado, and he was far ahead of the rest. In the last presidential campaign he also sought the party nomination, but the Democratic convention in 1984 chose W. Mondale, J. Carter's vice-president. Mondale has not entered the current race. Hart, however, officially entered the race on 13 April, and this was preceded by the publication of two of his books on the coming elections. In Reston's opinion, "echoes of the Roosevelt years" and of John Kennedy's appeals to the young to "live up to ideals" are clearly sounded in these books.

Before Hart's campaign was in full swing, however, he was accused of "infidelity" by the mass media. Hart was apparently well aware of the mentality of his fellow Americans in matters concerning the "moral purity" of candidates and he therefore dropped out of the race without making any excuses. The race for the presidency continued without him. Observers have suggested, however, that his ideas could be espoused by other contenders from the Democratic camp.

Congressman Richard Gephardt was the first Democrat to enter the race for the White House back in February. He made foreign trade the cornerstone of his campaign and supports measures many regard as protectionist. This 46-year-old congressman from Missouri "with the boyish looks" advanced the slogan of restoring America's "lost greatness."

What are his chances? The press has noted that only once in U.S. history has a member of the House of Representatives become the president (what is more, by the time the Republican convention nominated him after the 36th ballot, he had already won the election to the Senate). This was James Garfield, who was the winner in the 1880 election but spent only 4 months in the White House (he was fatally wounded in July 1881 and died in September). Nevertheless, several congressmen have tried to become president (in 1980 an attempt of this kind was made by John Anderson, who ran as a "third party" candidate). In this campaign two members of the House of Representatives are seeking the nomination (Gephardt and Kemp). Correspondents have noted that Gephardt, who was first elected to the Congress in 1976, quickly won authority and within 7 years had become the chairman of the Democratic Caucus—meetings of the congressional Democratic faction where decisions are made on the main organizational matters and on many political matters. E. Walsh calls Gephardt a "dark horse." In American political terminology this means that in the event of a deadlock at the party convention, if none of the main contenders wins a majority, a compromise could make one of the "dark horses" in the presidential "race" the party nominee. The same Walsh also calls another Democratic contender, Bruce Babbitt, a "dark horse."

Babbitt, the former governor of Arizona, entered the race on 10 March. In his very first speech he pointedly criticized R. Reagan, primarily— but not only—for "Irangate." "It is absolutely unnecessary," he said, "for America to entrust diplomacy to arms dealers, security to terrorists, policy in Latin America to mercenaries, its markets to Japanese businessmen, Wall Street to crooks, social problems to swindlers, politics to polling experts, and the White House to a dilettante."

This "48-year-old single-minded man with the quiet voice," as the press describes him, "is an attorney and a Harvard graduate and was active in the civil rights movement in the 1960's." Babbitt is thoroughly prepared for the presidential race. His campaign is being

managed by Greg Schneiders, a professional from Washington. According to his scenario, Babbitt is supposed to act like an "outsider" (that is, not a Washington politician) "who dares to be different" (we should recall that this scenario has worked twice already—for Carter and for Reagan). Babbitt is criticizing not only the current administration but also some Democratic candidates for their stand on a number of domestic policy issues. In particular, he has proposed an "income distribution plan," according to which "two-thirds of the American workers will share in the profits and losses of their enterprises" by the end of 1996 (i.e., after the next two presidential terms). He has also proposed the federal subsidization of child care facilities for preschoolers and the complete government financing of all Medicaid costs. His position on matters of foreign policy is close in general, as *The New York Times* commented (on 11 March), to the approach of the Democratic leaders in Congress. Babbitt has particularly vehement objections to the SDI.

It is probable, however, that American analysts have paid the closest attention to the campaign of Michael Dukakis, the governor of Massachusetts. The reason is that, as sociologists believe, measures implemented in Massachusetts, as well as in New York, New Jersey, and California, with varying degrees of success will invariably be put on the national agenda. In this case, it is a "new approach" to social programs, consisting in the belief that aid to the poor should not be simply given to them—for free, as it were ("this teaches people to stay dependent"). The "new approach" consists in requiring the recipients of aid to participate in job training and placement programs. This approach is regarded as a "contribution to the future welfare" of all.

Dukakis is serving his third term as governor of Massachusetts (with an interval in 1978-1982). What is more, in 1986 he was re-elected by 70 percent of the voters. *Time* reports that he has instituted a record number of innovations since 1982—from welfare reform to tax cuts—and that these have "given him the reputation of one of the best governors in the nation." For this reason, when this energetic 53-year-old politician announces at campaign rallies that he has "enough strength to stay in the race," "experience to head the government," and "spirit to lead the nation forward," the statements, as observers note, sound like the truth instead of like campaign rhetoric. Besides this, Dukakis has also aroused interest because he is the only member of an ethnic minority among the candidates (he is the son of Greek immigrants). He was also the only representative of the northeast in the race until Paul Simon announced that he would run.

Simon, a 58-year-old senator from Illinois, is considered to be a liberal. Before he was elected to the Senate in 1984 he was elected five times to the House of Representatives and is well known for his statements on employment, civil rights, education, and public health.

Simon's first campaign speeches included a familiar refrain voiced by other Democratic contenders: "This great nation could be even greater."

In May and June two more Democratic senators announced their candidacy— 39-year-old Albert Gore from Tennessee and 44-year-old Chairman of the Senate Judiciary Committee Joseph Biden from Delaware.

The 1988 presidential campaign is just starting. New contenders are bound to enter the race. Black clergyman Jesse Jackson has been quite active politically, just as he was in the 1984 campaign. Various opposition and "alternative" organizations have not been heard from yet and could possibly nominate their own candidate. According to Morrow, "the campaign of 1988 could be one of the more interesting and important in recent history. The President has served two terms and cannot be a candidate. Neither party has an obvious heir apparent. The nation will perform the very American act of reimagining itself."

#### Footnotes

1. See SShA: *Ekonomika, Politika, Ideologiya*, 1986, No 12, pp 63-66—Editor's note.

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#### CoCom and East-West Cooperation

18030011f Moscow SSHA: *EKONOMIKA, POLITIKA, IDEOLOGIYA* in Russian No 7, Jul 87 (signed to press 18 Jun 87) pp 80-86

[Article by A.V. Kunitsyn: "CoCom: Washington's Ambitions and Common Sense"]

[Text] The Western press has reported changes in the activities of the Coordinating Committee for Multilateral Export Control (CoCom). There is even talk of a "new policy line" for this organization, uniting the NATO countries (with the exception of Iceland) and Japan. London's *Financial Times* reported on 17 March 1987, for example, that the members of the committee passed a resolution at its latest session in January in Paris which presupposes a less rigid approach than, in particular, the one the American Defense Department insisted upon in the past. The agreements reached, the newspaper noted, "are connected with the desire of industrial groups in (Western) Europe and the United States for a less contradictory position by their governments on the issue of export control." It also reported that the January resolutions could result in the reduction of the prohibitive CoCom lists of goods whose export to the socialist countries is subject to various restrictions.

This naturally makes us wonder how these reports should be assessed in light of the overtly destructive policy CoCom pursued under U.S. pressure throughout the 1980's in East-West economic relations. Could it be that a thaw has started at last and that the Washington "hawks" have been compelled by the numerous protests of the business community and the public and even by mere common sense to give up their long- bankrupt attempts to exclude the USSR and its allies from participation in the worldwide exchange of the modern achievements of science and production? Or is this a matter of the futility of the very policy of "technological confrontation," which U.S. ruling circles are no longer capable of pursuing in its "pure form"?

These are far from idle questions as far as the prospects for East-West economic cooperation are concerned. Under the present conditions of rapid technical and technological progress its opponents attach special significance to CoCom activity. We know that the main functions of the coordinating committee are the planning and implementation of a common Western policy on the control of exports to the socialist countries. American ruling circles, pursuing the goal of global confrontation with socialism and the erosion of its economic, political, and defensive capabilities, represent the generator in this process. In this connection, CoCom is supposed to limit the access of CEMA countries to the capitalist market for advanced technology and high technology goods and thereby isolate them from much of the scientific and technical potential in the world.

Back in the middle of the 1970's, when there were just faint outlines of the current phase of the technological revolution, connected with the use of fundamentally new types of technology, the U.S. Defense Department displayed constant "concern" about the timely exclusion of the goods and technology of the future from the sphere of East-West trade. In 1976 a scientific commission of the U.S. Defense Department prepared a special study (the Busey Report), recommending much more stringent export controls for the United States and its NATO allies. The commission's recommendations were reflected in the 1979 Export Regulation Act, which assigned the elaboration of new principles of export control directly to the U.S. Defense Department.

The new system was based on a list of "critical military technology" (LCMT), and the references to its military nature were necessary to U.S. ruling circles primarily as camouflage for the real aims of their confrontational policy. It was first assumed that the LCMT would be drawn up quickly, before 1 October 1980, and would be published immediately afterward. Its first drafts, however, were impractical because of their excessive length (over 800 pages). A more or less acceptable draft was not ready until fall 1984.



The list consists of four parts. The first and longest section lists progressive types of technology and expertise in the spheres of information and computer engineering, microwave and sensor devices, elementary particle accelerators, lasers, aerospace equipment, submarine systems, etc.

The second part lists the equipment and technology of civilian industries (metalworking, electronics, the chemical and petroleum industries, power engineering, transportation, and others) that could be used in military production.

The third lists "strategic materials": boron hydrides, basal cuprous silicates, high-temperature polymers, materials for optical and x-ray sensory elements, special paints, thermal insulation, etc.

The fourth part lists technical data, documents, blueprints, and specifications pertaining to authorized export goods. The pretext for including this category on the list, as a special memorandum from the U.S. Defense Department said, was the possibility that some types of technical equipment "could be recreated with the aid of engineering analysis, the dismantling of various machines, or the study of technical documents obtained from other sources."

The list reaffirms the Pentagon's stubborn attempts to limit and complicate East-West trade in every way possible and to make it hopeless. Many of the modern machines, instruments, materials, and types of technology on the list are ordinary commodities of international trade and their categorization as "military products" is quite conditional. Furthermore, the criterion used in compiling the list—"dual-purpose goods and technology" (i.e., those that can be used for civilian and military purposes)—is so broad and vague that it permits and validates any kind of arbitrary classification of goods.

The principles worked out by the Pentagon for the compilation of the U.S. list were transmitted to CoCom, and its experts began to assess the potential strategic significance of the latest equipment and technology in 1983. American ruling circles were particularly interested in securing a common Western approach to the restriction of exports to socialist countries. People in Washington certainly realized that the American plans for the "technological isolation" of the socialist countries would be doomed from the very beginning without the support of the allies: American equipment and technology now constitute less than 3 percent of the high technology goods imported by CEMA countries from developed capitalist states.

Within the CoCom framework the United States is pursuing a deliberate policy of more stringent limitations and standard national procedures of export control in other countries according to the American model. In July 1984 the members of CoCom agreed to adhere to the strategy of a "controlled lag" with regard to the CEMA

countries—in other words, to authorize the sale of only obsolete equipment and technology to them. At a CoCom session in October 1985 they agreed to update CoCom control lists annually (they were previously reviewed once every 3 years), by analogy with the American list. At the same time the members established a new body, a conference of experts on security and technology, to assess the military potential of any new technology. All of these experts are military personnel and defense agency officials.

An important part of the policy of setting stricter multilateral limits on exports of modern goods and technology to the USSR and other socialist countries is the attempt to involve neutral West European countries and some developing states in this policy. Since 1983 several of them (Sweden, Switzerland, Austria, India, Pakistan, and others) have agreed to adhere to some extent to CoCom restrictions in trade with socialist countries in the fear of losing their access to American and other Western technology.

It would seem that people in Washington should have been satisfied with the results of their many years of efforts after the Pentagon's global flourish turned into a transcontinental web of export controls and blackmail. Nothing of the kind, however, has been seen there yet, and it probably never will be seen there, because the underlying motives of the overseas "hawks" rarely mesh with objective economic processes. The system of export controls fostered by the Pentagon has created numerous problems for the United States, both within the country and in its relations with foreign states.

The more stringent controls reduced the variety of American export goods, especially exports to socialist countries. When U.S. Secretary of Commerce M. Baldrige addressed a forum on Soviet-American trade relations in Washington in March 1986, he essentially admitted that future industrial exports to the Soviet Union would be confined primarily to equipment and technology for the food industry, construction, mining, the pulp and paper and timber industries, medicine, and light industry, chemicals for agriculture, means of monitoring the state of the environment, etc. There would be virtually no chance of sales in the huge markets of the socialist countries for the majority of other industries, especially the modern ones on which scientific and technical progress will depend.

The increasingly strict export procedures are having a negative effect on U.S. trade with capitalist and developing countries as well as with socialist states. When the head of a large West German computer firm addressed a session of the North Atlantic Assembly in November 1984, he said that acquiring American microcircuits had become so difficult and took so much time that his company had been forced to either rely on Far Eastern suppliers or develop them itself. In Western Europe

there is a common belief that one of the most important objectives in the technological sphere is the accelerated development of the types of technology the United States is refusing to export.

Stricter export controls are also damaging American firms directly. There have been cases in which U.S. companies have offered their overseas clients a substantial discount (of up to 15 percent) for doing all of the paperwork connected with the export control procedures.

All of this is diminishing the competitive potential of American exporters, especially now that the deficit in the U.S. balance of trade is of gigantic proportions. The fear that the Reagan Administration's anti-Soviet policy line could seriously undermine West-West trade led to the vigorous resistance of stricter export controls by the American business community. According to the U.S. National Association of Manufacturers (NAM), the total losses incurred by American firms as a result of export restrictions reach as high as 12 billion dollars a year. It was no coincidence that when the export regulation act was being reviewed in 1983-1985 the largest American commercial and industrial associations—the Chamber of Commerce, the NAM, the Business Roundtable, the National Electronics and Office Products Association, the National Association of Wheat Growers, and others—formed a special lobbying group to launch a massive campaign in Congress in defense of the interests of American exporters.

The campaign was supported by members of the scientific community who were worried that stricter secrecy in federal agencies, industry, universities, and research centers could impede the progress of American science and technology. As we know, an office of secret intelligence oversight was established in 1982 by order of the President of the United States. In March 1983 Reagan signed a directive envisaging the strict administrative censorship of any publications by civil servants with access to classified information. The U.S. intelligence community and the Pentagon established stricter rules governing the publication of technical information by laboratories and research centers in the country. As a result, the number of classified documents increased by 9 percent in fiscal year 1985 alone and reached a total of 19.6 million. At the insistence of the U.S. Defense Department a special committee on international scientific contacts and national security was set up in the National Academy of Sciences to study problems in the transmission of technology through universities and their research laboratories. All of the obstacles that were set up to block the international exchange of scientific information were protested vehemently by the largest scientific centers in the country: the California and Massachusetts institutes of technology, Cornell and Stanford Universities, the University of California, and several other higher academic institutions.

The Reagan Administration's efforts to establish more rigid controls on technology transfers faced it with the prospect of another, extremely sizable problem. This was the problem of the inclusion of U.S. allies in the work on the SDI program, presupposing the reciprocal exchange of scientific and technical information on a massive scale. Excessive export control will inhibit this work perceptibly.

Another important but ordinary factor was the inability of the export control staff to cope with the much larger volume of work. According to some data, there are now from 150,000 to 200,000 items on the American restrictive lists. Each year the U.S. Department of Commerce has to consider up to 140,000 applications for export licenses. Around 40,000 of these are subject to interdepartmental consideration. Only 8,000-10,000 of the applications, however, are connected with exports to socialist countries. Current export control regulations are extremely complicated and contradictory and are constantly being clarified and updated. Under these conditions, the government personnel responsible for export control do not always have a clear understanding of the nature of their functions. Decisions are often made by personnel lacking the necessary qualifications.

Pointing to these problems, many members of the business community and even some administration officials have advised the considerable reduction of controlled export items (for example, M. Baldrige feels that the list could be reduced by 30-40 percent), for the purpose of focusing attention on equipment and technology of genuine strategic importance. In their opinion, the United States should concentrate less on export restrictions than on the acceleration of its own technological development, so that it could stay one or two generations ahead in new technology.

The maintenance of the diversified and extremely unwieldy system of export controls entails difficulties and high costs. Whereas the amount spent on these purposes at the end of the last decade was around 8 million dollars a year, the figure had reached 29.4 million by fiscal year 1986 and the U.S. Congress was already allocating 35.9 million dollars for each of the next 2 years.

As far as the United States' West European allies and Japan are concerned, the Pentagon-dictated line of curtailing trade with socialist countries is even less acceptable to them, for economic and political reasons.

Trade with socialist countries has become a perceptible factor in the economic affairs of many capitalist states. In all, the CEMA countries account for 2.8 percent of the total exports of OECD members, but the figure is much higher for some West European states: 23 percent for Finland, 11 percent for Austria, 7 percent each for Greece and Iceland, and 4 percent for the FRG. In Japan the indicator is 2.1 percent and in the United States it is only 1.5 percent. Access to the large markets of the

socialist countries is helping to stabilize economic conditions in the West European countries, aiding in the fuller and more efficient loading of production capacities, and restraining the growth of unemployment.

Whereas the United States is inclined to regard East-West trade as a "favor" to the socialist countries, the West European states regard it as a normal and, what is more, desirable element of international relations. They believe that broader East-West economic contacts are mutually beneficial. Commercial cooperation with the socialist countries is strengthening Western Europe's economic position and, consequently, its political position in relations with other capitalist power centers.

Political interests, which are of a dual nature in Western Europe, also play a significant role. On the one hand, trade with the USSR and other CEMA countries is viewed in Western Europe as a factor strengthening peace and security and promoting the development of politically important mutual understanding and cooperation with the states of the other social system. The other side of Western Europe's political interest in East-West economic relations is connected with the desire to use them as a means of exerting political and ideological pressure on the socialist countries. This desire is a product of the class nature of the relations between the two worldwide systems and often has an antisocialist thrust. Imperialism's strategic line of weakening the influence of world socialism and undermining the unity and solidarity of the countries of the socialist community is reflected in the foreign economic policies of West European states. The methods of West European policy, however, are quite different from American methods. Whereas the current U.S. administration is primarily interested in immediate results, people in Western Europe are hoping to use trade and other forms of economic contact with the socialist countries primarily for the purpose of long-term influence.

The conflicting interests of the two capitalist power centers are also quite visible in CoCom activity. In the middle of the 1980's, when a collective foreign economic policy for the NATO countries in relations with socialist countries was being worked out, the United States had to make certain concessions to its partners and to neutralize some of the restrictive elements of its own trade policy and add some "reasonable" elements.

The law passed in 1985 on changes in the administrative regulation of exports<sup>1</sup> envisages a substantial reduction, of one-third, in the period for the consideration of exporters' applications by government agencies. This is also the purpose of the new category of licenses for repeated use, intended to replace individual licenses in repeated shipments of the same goods to the same clients. This should reduce paperwork and guarantee the exporter the possibility of reliable deliveries, which is an extremely important factor in competition.

The new legislation is supposed to give American and foreign firms an interest in its conscientious observance and in maximum cooperation with U.S. government bodies in this area. For example, one of the main criteria for the issuance of the new licenses is the "reliability" of the exporter and the foreign recipient of the goods, to reduce the risk of their illegal resale to controlled countries. The degree of this reliability is determined by the U.S. Department of Commerce in conjunction with other agencies after a thorough analysis of the firm's reputation. American companies applying for these new licenses must also institute their own programs of export control, including investigations of foreign clients.

The Pentagon and the Department of Commerce have recently considered the issuance of a so-called "gold card" to reliable foreign clients. The "gold card" numbers would be fed into the computer of the U.S. Department of Commerce. After the authenticity of the number and the status of the client's bank account had been checked, the computer would immediately issue the appropriate export permit. This would also relieve American exporters of the need to apply for individual licenses. People in the United States also hope to reduce the number of re-export licenses considerably in this way.

To encourage CoCom non-members to cooperate more closely in the control of deliveries of equipment and technology to socialist countries, the law stipulates preferential regulations for American exports to the countries bringing their export procedures in line with CoCom standards. According to Deputy Assistant Secretary of Defense for International Security Policy S. Bryan, the United States is now "in a position in which the countries (CoCom non-members—A.K.) are asking us for these agreements without waiting for them to be offered."

The 1985 legislation considerably expanded the sphere of the use of sanctions against foreign violators, envisaging the possibility of the restriction of their exports to the United States. At the same time, to avoid conflicts with allies and other friendly countries, the law includes regulations governing the institution of import sanctions against overseas firms.

The search for new guidelines in CoCom activity, which has been reported by the Western press, has become part of the effort to improve the export control system. Time will tell where the search will lead the Western allies. It is an extremely telling detail, however, that the tendency of U.S. reactionary groups to overemphasize East-West technological confrontation has been largely discredited and is now seen as a groundless policy and as an absurd business practice. Now that the USSR and other socialist countries are concentrating on the acceleration of scientific and technical progress, many of our

partners in the West do not want to miss any new opportunities for mutually beneficial cooperation, and the need for this cannot be denied by Washington or CoCom.

#### Footnotes

1. See *SShA: Ekonomika, Politika, Ideologiya*, 1986, No 4, pp 64-67—Editor's note.

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**U.S. University-Industry Research Ties Viewed**  
*18030011g Moscow SSHA: EKONOMIKA, POLITIKA, IDEOLOGIYA in Russian No 7, Jul 87 (signed to press 18 Jun 87) pp 93-102*

[Article by S.V. Kolupayeva: "Forms of Scientific Cooperation by Universities and Industry"]

[Text] Universities occupy a prominent place in U.S. scientific research in terms of volume. In this respect they surpass all other establishments and organizations—government laboratories, non-profit organizations, and colleges. The 100 largest universities account for 85 percent of all government R & D financing. What is more, the top 20 account for 40 percent of the allocations, and the top 10 universities receive one-fourth of the total.<sup>1</sup> They have occupied the advance frontiers of science by conducting the lion's share of basic research in the main areas of scientific and technical progress.

The desire to use basic science for fundamentally new ways of accomplishing practical tasks and increasing the scientific input in production is the reason for the great interest industrial firms have displayed in joint research projects with universities. In 1985 American companies paid out 485 million dollars for university research.<sup>2</sup> Around 40 percent of all agreements concern interdisciplinary research. Up to 60 percent of the industrial backing is for technical research.<sup>3</sup> The development and increasing complexity of production presuppose the thorough development of scientific knowledge and its fuller inclusion in the economy. Many fields of science have reached the level at which the interval between the elaboration of the basic idea and its commercial use has been reduced considerably (to 5 years or less).

The intensification of contacts between universities and private companies is actively supported by the government. It regards this kind of cooperation as a means of involving industry in the financing of university R & D (industry's share is still only 6 percent, while the government's share is 70 percent), strengthening the material and technical base of universities, and improving the quality of academic instruction. Protracted direct contacts have done much to solve the problem of the

placement of graduates in jobs, increased the volume of scientific information, and accelerated the process of technology transfer. The U.S. administration has recently taken resolute steps to create a favorable atmosphere for this kind of cooperation. In 1978 the government instituted the "Industry-University Cooperative Research Program." The National Science Foundation (NSF) announced a program of "Industry-University Cooperative Research Centers" (1973) and a program of small business assistance (1977), a large part of which is intended to stimulate cooperation between small firms and universities. Equipment presented to universities in the form of a gift is exempt from taxation, the procedure for patenting the results of R & D obtained with the use of government grants has been simplified, and tax benefits have been established for companies offering financial assistance to universities or participating in joint research with them.

Cooperation falls into several basic categories depending on the degree of university participation in research: Industrial assistance in university projects, joint research, and university participation in industrial research.

#### Industrial Assistance in University Projects

This form of cooperation accounted for 11 percent of all the agreements concluded in 1983.<sup>4</sup> It is conducted in the form of financial assistance, the transfer of research equipment, and the creation of industry-financed university jobs.

Financial assistance is offered mainly by large firms and includes non-specific grants, contributions, and monetary gifts—sums of money paid out to universities not for direct gain, but for the reinforcement of their material and technical base, the recruitment of graduates for jobs in industry, and the establishment of contacts to serve as the basis for joint research in the future. For example, the du Pont de Nemours firm annually gives a few universities and their subdivisions around 6 million dollars in the form of non-specific grants of 10,000 dollars each.<sup>5</sup> The chemistry departments of Columbia University, North Carolina State University and Illinois State University receive part of their funding in the same way. Along with funds from other organizations, allocations from industry are sent to special university departments in charge of business negotiations (with the exception of contract negotiations) with all outside financing organizations. They become part of the overall university budget, which consists of government allocations, funds from industry, and the universities' own income. The administration makes all decisions on the expenditure of these funds, using them to finance planned basic research projects, support young scientists, and organize scientific conferences. The volume of government support is decreasing as the funds from industry increase. Funds are also transferred directly to individual researchers, departments, and scientific centers of universities, bypassing the administration. Through a fund

for outside activity, a corporation awards grants to students working on projects of interest to the company, pays for the purchase of scientific equipment and the hiring of additional personnel, covers the travel costs of students and educators attending scientific conferences, and finances salary increases for researchers. For example, the Amoco Foundation, financed by Standard Oil of Indiana, allocated 1.5 million dollars for the purchase of equipment to the Catalysis Center of Northwestern University in Chicago in 1982.<sup>6</sup> Business is not even trying, however, to replace the government in the financing of all university research, often disregarding the desire of universities to engage in purely basic science. The small number of non-specific grants, their small size (from 5,000 to 10,000 dollars), and their irregular receipt from private firms due to fluctuations in economic conditions preclude the establishment of a material base for university research with this assistance.

Another form of participation by business in university research is the NSF program of presidential grants for young researchers. Each year the NSF establishes 200 grants of 25,000 dollars each, and around 75 percent of the necessary funds come from private firms. The size of the grants could increase to 37,500 dollars if industrial firms contribute more.<sup>7</sup> The main purpose is to give young educators a chance to conduct basic and applied research in mathematics, physics, biology, and engineering.

The firms not only pay out money, but also donate **research equipment**. When Hewlett-Packard worked with 64 universities in California in 1984, for example, it provided them with 3.2 million dollars' worth of computer equipment.<sup>8</sup> In general, this form of contact has not been developed sufficiently because the scientific equipment is frequently below the current levels of scientific and technical development and is more suitable for the instruction process than for research. As far as costly equipment is concerned, companies prefer to install it in their own laboratories and then invite university scientists to work there. Cooperation is more productive when equipment is donated to a university in the company's own state for research in which it has a direct interest. Providing a university with equipment for temporary use is another method.

There are professorial positions **paid** by industry in the technical subdivisions of universities. The scientists occupying these positions are expected to keep track of the specific needs of the financing firms. There are positions of this kind in schools of medicine, pharmacology, and chemistry. There are no more 6 in the majority of universities, with the exception of Harvard University, where there were 259 in the 1979/80 academic year, and of the Massachusetts Institute of Technology (MIT), where there were 126.<sup>9</sup>

Because firms often do not see any direct production advantage in the participation of business in academic research projects, they prefer joint research conducted specifically for the resolution of production problems to the general support of universities.

### Joint Research

This is the main form of cooperation. In 1983 it accounted for 60 percent of all contracts.<sup>10</sup> In essence, this kind of research is distinguished not by the direct participation of representatives of industry and universities in the work, but by cooperation in technical planning, which envisages the joint selection of research fields, determination of program goals, and distribution of resources. It can be organized in different ways: contracts and special grants; special programs of joint research; a research consortium; industry-university research centers, institutes, and equipment complexes.

The work on **contracts and special grants** is conducted by universities at the request of industry. The contract system is the main channel of communication between business and academic science, which is distinguished by the direct dependence of research funds on results. In 1983, for example, these contracts accounted for 45 percent of all joint research agreements.<sup>11</sup> The terms of the contract specify the exact goals of the research project, deadlines, the amounts of financing, and the main executors. By special agreement, the university could hold the patent on research findings and the firm could have priority licensing rights. The contract often becomes the basis for the organization of an entire experimental production unit operating within the university framework but actually belonging to a firm. It would employ university scientists preferring this kind of work to teaching.

In many cases the conclusion of contracts for projects distinguished by a high degree of uncertainty allows companies to minimize their financial and material losses in the event of the scientific, technical, or commercial failure of the project, because the client does not spend funds on the purchase of specialized equipment and the training or hiring of additional personnel. If the results are promising, on the other hand, the company can then expand the scales of the work with its own scientific resources.

There has been a recent tendency toward the conclusion of longer-term contracts. This gives university scientists a chance to form autonomous multidisciplinary research teams and hire the necessary technical personnel. In many cases the negotiation of a contract is preceded by other types of communication between university scientists and the firm (usually consulting services). The conclusion of a contract between Monsanto and George Washington University, for example, was preceded by investigative research. Genetic engineering and the functioning of chromosomes were studied. The potential for the derivation of new products (medicine for cancer, allergies, and arthritis) was determined. The results were sent to an advisory council which was made up of representatives of the firm and the university and was created specifically to make the final decision on the negotiation of a contract.

American companies usually award contracts on the basis of competitive bids from leading universities and smaller academic institutions. This allows for the objective choice of the best executor. The contract is usually signed by the administration of the company and the administration of the university. Sometimes a contract is negotiated directly with one or several scientists. In 1981 the du Pont firm announced that a contract for 6 million dollars had been signed with Doctor F. Leder from the Harvard University School of Medicine for research in molecular genetics.<sup>12</sup> The terms of the contract stipulated that Harvard would patent any inventions resulting from the project. The firm would retain priority licensing rights.

In contrast to contracts, special grants are frequently used to finance projects with highly uncertain results or those that will expand the boundaries of any field of science. The use of the results for technical purposes of interest to the company is negotiated. This distinguishes the special grants from non-specific grants for university projects. Original and promising theories advanced by scientists serve as the basis of these agreements. The firms take on part of the financing of certain basic university projects. In 1983 and 1984, for example, General Electric, Hewlett-Packard, Phillips, and other companies financed projects in physics, materials technology, and electronics by more than 400 Stanford University researchers. Research in electrotechnical materials, surface physics, and catalytic materials, especially ceramics and polymers, was conducted at the University of California in Berkeley with the financial support of 70 firms.<sup>13</sup>

The Proctor & Gamble company provides an example of how this form of contact came into being. In 1980 representatives from the company's research laboratory visited 11 higher academic institutions and informed them of the fields of research of interest to the company. The firm was prepared to finance projects with highly uncertain results but considerable potential benefits for its production in the event of success. The universities submitted 88 proposals. A commission of Proctor & Gamble executives selected 14 of these. An advisory council made up of the firm's leading scientists then chose the 7 most promising proposals. Each of the seven professors who had composed the proposals was invited to conduct a seminar. The company eventually chose three final projects and awarded special grants of 40,000 dollars each for them.<sup>14</sup>

**Special programs** of joint research unite the research personnel of industry and universities for projects and are financed by both partners. The government frequently participates, and it usually initiates the cooperation. The "Industry-University Cooperative Research Program" is intended to strengthen cooperation in the area of long-term basic research. The NSF covers all of the university costs of the program and even part of the expenditures of firms in many cases (up to 50 percent, and 90 percent in the case of small businesses). The

financing of eight joint projects for 1.4 million dollars was begun in 1978, and by the end of the fourth year the program encompassed 79 universities and 88 companies, which received 231 grants totaling 30 million dollars. In the first 2 years of the program almost all of the joint projects concerned basic aspects of technical development.<sup>15</sup>

In 1980 basic research constituted around half of all joint projects. Around 60 percent of the special programs were launched for the resolution of engineering problems and around 30 percent were financing research in physics, mathematics, and biology.<sup>16</sup> Chemical and aerospace firms and computer manufacturers have contributed the most to the government program. Companies in electrical engineering (excluding electronics and communication equipment production) rank second.

The **research consortium** is a temporary organization uniting many universities and companies specifically for the purpose of several costly and extremely complex research programs. Special programs with a successful conclusion can grow into this kind of consortium. Associations of this kind have come into being in microelectronics, robot engineering, biotechnology, and power engineering. A new consortium, the Chemical Research Council (CRC), uniting the leading chemical companies and large universities, was established to promote basic research in chemistry and the training of personnel at a special conference in 1980, attended by scientists from industry, universities, and the NSF. It was established that 25 percent of the allocations of firms for CRC activity would be deposited in its central fund, and the remaining 75 percent would be transferred directly to universities for research programs. By the end of 1982 the CRC united 128 universities and 37 firms.<sup>17</sup>

A research consortium is being established at the Cornell Institute of Biotechnology for basic research in biotechnology and consists of several subdivisions of the institute, financing companies, and representatives of the New York State Government. The firms will pay out 2.4 million dollars over 6 years. The initial contribution was 125,000 dollars. The companies keep up with the research by attending conferences, reading reports specially prepared for them, and maintaining personal contact with university scientists.

The establishment of research consortiums has been practiced more widely in the 1980's. The organizations established include Engenics (1981) and Bell Communications Research (1984). Almost 90 percent of the research teams working in them specialize in basic research. Around 29 percent of the projects are conducted in the laboratories of these organizations, 25 percent are conducted in university laboratories, and 9 percent are conducted in government laboratories.<sup>18</sup>

**Industry-university research centers, institutes, and equipment complexes** are being established for long-term cooperation. The research centers are relatively autonomous university subdivisions with their own material

and technical facilities and personnel and they work according to a joint industry-university program. Their number has risen dramatically in recent years. More than half of the 7,500 non-commercial scientific organizations listed in the "Handbook of Research Centers" for 1984-1985 fall into this category.<sup>19</sup>

Most of these centers are located on the campuses of private universities. They are financed by several companies, often representing different industries (the Stanford University Integrated Circuit Center is supported by 19 firms in the electronics industry, and the Catalysis Center of the University of Delaware is supported by firms in the oil and chemical industries).

Promising fields of research for the center are chosen each year by an advisory board consisting of one representative from each financing company. Their choices, however, are made strictly in the nature of recommendations. They are included in the research program only if they do not conflict with the center's general emphasis on basic research. This secures its "equidistance" from the requests of firms and allows the interests of all clients to be reconciled within the framework of a single program. Centers specializing in interdisciplinary applied research are managed by a board of directors consisting of representatives of the university, industrial companies, and government organizations. State governments are trying to derive certain benefits from this cooperation for the resolution of their regional problems and they are increasingly likely to help support these centers and have their representatives on the board making the decisions on center scientific and technical policy.

The staff usually includes university appointees approved by the university administration and the deans of the corresponding schools, researchers and teaching assistants who work in the center part-time, university graduates, upperclassmen, and exchange students. The establishment of the center usually comes about in the following way. A university researcher with contacts with a private company and an awareness of its needs discovers a field of research of special interest to the company. Five or six scientists then get together and ask the administration of the firm to sponsor the organization of a center. They then submit a proposal to the university academic council, which submits a recommendation to the president of the university.

Another procedure is also possible. In 1973 the NSF launched the program of "Industry-University Cooperative Research Centers."<sup>20</sup> In 1982 the budget of these centers was estimated at 6 million dollars, 4 million of which had come from industrial firms.<sup>21</sup> The center's work is considered to be successful if government funding is completely replaced by allocations from private firms within the first 5 years.

Cooperation with business is a key factor in center activity. Students have an opportunity to learn the goals and conditions of scientific work in various companies,

and their potential employers have an opportunity to offer jobs to the most capable young specialists with a background in experimental research. Up to 70 percent of the university graduates who take part in center projects and later take jobs in industry work for the companies financing the centers.

The program of "Engineering Research Centers" launched by the NSF in 1985 is a continuation of the government programs mentioned above. The budget of the engineering centers is largely composed of federal budget funds. Besides this, they have special goals: the training of highly skilled engineering personnel and the encouragement of university graduates to work on the resolution of the most pressing problems in engineering; the organization of research concerning basic engineering problems of an interdisciplinary nature.<sup>22</sup> In 1986 the NSF allocated around 25 million dollars for the creation of 25 engineering centers with an annual budget of from 2.5 million to 5 million dollars in the next 5 years. Future grants are expected to come primarily from industry. When this program was being considered, the NSF received applications for the establishment of engineering centers in the fields of production processes (34), materials technology (12), chemical technology (11), computers (10), construction (8), optical technology (8), and biotechnology (7).<sup>23</sup>

Institutes or centers on university campuses established specifically to serve industry are much fewer in number. In contrast to most cooperative centers, they are established on the campuses of public universities at the suggestion of industrial firms for the resolution of specific production problems. Research here is not of an interdisciplinary nature, and this is why the institutes receive financial support from companies in a single industry. Firms in the food, woodworking, and textile industries are the most likely to engage in this form of cooperation. Centers of this kind in the United States include the Michigan State University Textile Research Institute, the University of Wisconsin Nutrition Institute and Plant Growing Institute, the Utah State University Metallurgy Institute, and several others.

Cooperation in which business and universities participate jointly in the acquisition, construction, and operation of equipment is usually the result of unique experimental facilities, such as the Laser Power Engineering Laboratory of the University of Rochester in New York State, the national synchronous complex of Brookhaven National Laboratory, part of which is staffed by scientists from the State University of New York in Brookhaven, Pennsylvania State University, and the Xerox company, and the synchronous radiation complex staffed by scientists from Stanford University and the University of Wisconsin. The universities and private firms work together in choosing the areas in which the equipment will be used, compiling technical documentation, and deciding on the allocation of funds for the purchase or maintenance of equipment. The submicron structure complex is a typical organization of this kind.



The NSF awarded Cornell University a grant of 5 million dollars for 5 years. By the terms of the contract the university maintains the laboratory and administrative facilities. Equipment is operated and maintained by university and company personnel. A projected plan of operations is drawn up periodically by a council of eight, four representatives from the university and one each from Bell Laboratories, IBM, Hewlett-Packard, and Intel. Day-to-day management is the responsibility of the program committee, which makes decisions on the purchase of equipment, the hiring of personnel, and the choice of research projects. The committee is made up of 12 appointees, headed by a director (six each from the university and outside organizations, including three from industry). Users from other firms or universities must discuss their plans for the operation of equipment in advance with the director and agree with him on a fee. The director defines the goals of research and the type and level of equipment operations. The draft contract is then submitted to the program committee for consideration.

#### **Participation by Universities in Industrial Research Projects**

This type of cooperation accounts for around 30 percent of all agreements. Now that scientific and technical knowledge is renewed every 5 years on the average, contacts of this type are particularly important for business. The services of university scientists for work in industry are enlisted in various ways. The largest firms, du Pont and IBM, finance "visiting professor programs," in which university scientists spend at least 25 percent of their working time in the firm. The invitation of specialists from universities to take temporary jobs in the company can be part of the agreements on joint research programs, as in the case of the agreement between Monsanto and Harvard University or in the case of the NSF program supporting university cooperation with small businesses. Programs of this kind can include, in addition to joint projects and consultations, the practical training of students in firms and courses of study in universities for company personnel wishing to earn an academic degree. The development of this kind of cooperation has been promoted by the creation of special zones with an atmosphere conducive to cooperation by high technology companies and leading universities (science parks).

In most cases contracts are signed by representatives of the university administration rather than by the scientists themselves. Many universities compile special lists of fields and research and services in which they are willing to cooperate with private businesses. Scientists are invited to provide consulting services, conduct weekly seminars and lectures, and serve on advisory and expert commissions. As a result of these contacts, the number of scientific articles published by the employees of private companies and co-authored by specialists from universities is increasing. The proportion accounted for by these articles in all printed works rose

from 13 to 23 percent between 1973 and 1982, including a rise from 19 to 46 percent in biology, from 19 to 38 percent in biomedicine, and from 38 to 46 percent in earth and space sciences.<sup>24</sup>

A form of cooperation in which university instructors spend 1 day a week working as consultants in firms is widely practiced. These consultations are usually initiated by private businesses, and in most cases they lead to closer contacts. For 7 months, R. Lenman, professor of pharmacology and medicine from the University of Missouri (in Kansas City), worked as an independent consultant in the chemical division of Marion Laboratories, a pharmaceutical company. By the terms of his contract, the firm provided him with an office and a secretary and paid his travel costs and other expenses; he attended the business meetings of company executives and took part in analyzing problem-solving and operational guidelines, the preparation of various documents, and the planning and organization of research. Strictly confidential reports were compiled for executives when necessary. Lenman's entire period of employment with the firm was regarded by the university as a long sabbatical.<sup>25</sup>

The practice of combining jobs in industry and universities promotes the development of this kind of cooperation. For example, Doctor Brill, the scientific assistant of the president of the Cetus firm, is also a professor of bacteriology at the University of Wisconsin; Howard Schneiderman, the world-renowned scientist from the University of Washington, was invited by the Monsanto firm to be its vice president in charge of scientific affairs.

The accelerated development of the sphere of research and its increasing impact on the economy have led to the creation of a system of mutually beneficial cooperation between universities and business on all levels of interaction.

From the standpoint of the higher academic institution, cooperation with industry is beneficial if long-term regular contacts are established. This is particularly important in basic research. It is important for the universities to reserve the right to publish the results of research in scientific literature. When a contract is negotiated with a private firm, the university and its industrial partner agree on the period of time the former will grant the latter for the incorporation of project-related inventions prior to publication. As a rule, the period is no longer than 1 or 2 months. To protect their main functions—the acquisition and dissemination of new theoretical knowledge and the education of students—the universities assign priority to industrial projects capable of furthering basic research and the training of students for work in high technology industries. To avoid the dissipation of resources, universities are insisting that agreements be signed with the university administration rather than with individual researchers.



Private business, on the other hand, considers cooperation with universities to be effective if the research is brought in line with its own needs. This presupposes a combination of basic and applied research and the kind of projects in which companies from different industries are included in the cooperation. This expands the scales of research and establishes a creative atmosphere. In the opinion of firms, cooperation with universities should be based on direct contacts, joint supervision of the work, and solid financing on both sides. Government activity should be limited to specific recommendations.

The following basic trends have recently become apparent and will probably distinguish the system of cooperation as a new type of relationship between higher education and industry: the inclusion of firms from the high technology sector, possessing all of the necessary resources for the completion of the innovation cycle, and leading universities, located in the forefront of science, in the sphere of cooperation; the negotiation of longer-term agreements and the creation of a system of long-term cooperation; the more widespread participation by industrial firms in the scientific activity of universities; the increasing importance of joint projects concerning specific production problems; the concentration of resources in the sphere of interdisciplinary research.

The establishment of this new type of relationship has given rise to several problems. The adverse effects of cooperation are still only symptomatic, but they are already alarming the U.S. scientific community. Closer contacts between industrial companies and universities are intensifying the commercial thrust of university projects. Scientists are losing their objectivity in assessments of the social impact of various projects. Vast areas of information are being classified as commercial secrets, and this is impeding free communication between scientists. In 1984 a center for the study of university interests was established in the United States.<sup>26</sup> Its functions include the counteraction of the pressure exerted on university science by industrial corporations and military agencies and the exclusion, as far as possible, of the "profit motive" from the scientific activity of educators and students.

The development of industry-university cooperation is jeopardizing the traditionally basic nature of university research. Industry's attempts to keep the confidential results of projects within the walls of its laboratories as long as possible are coming into direct conflict with the universities' main functions of training specialists and disseminating scientific information.

#### Footnotes

1. "University-Industry Research Relationships," Wash., 1983, p 10.

2. "Science Indicators. The 1985 Report," Wash., 1985, p 85.

3. "University-Industry Research Relationships," p 20.

4. Ibid., p 15.

5. "Industry and University: New Forms of Cooperation and Communication," Paris, 1984, p 39.

6. *Chemical Engineering*, 1982, No 13, p 45.

7. *Chemical and Engineering News*, 1983, No 44, p 35.

8. *Science*, 1984, No 4669, pp 1456-1457.

9. "University-Industry Research Relationships," p 70.

10. Ibid., p 15.

11. Ibid., p 16, table 3.

12. "Industry and University: New Forms of Cooperation and Communication," p 46.

13. *DUZ*, 1984, No 23, pp 21-23.

14. "University-Industry Research Relationships," p 74.

15. For example, some companies producing computers are researching the structure of silicon jointly with the California Institute of Technology. Artisan Industries is working on a joint research program with the University of Houston on the basic aspects of the filtration process. Eastman Kodak and Clarkson Tech are studying the process of crystallization in surface film.

16. "University-Industry Research Relationships," pp 76-79.

17. "Industry and University: New Forms of Cooperation and Communication," p 39.

18. *Harvard Business Review*, November-December 1985, No 6, pp 61, 64.

19. They include the Catalysis Center of the University of Delaware, the Hydrocarbon Research Institute of the University of South Carolina, the Science Center of Materials Technology of Lehigh University in Pennsylvania, and the Microelectronics Center of Rensselaer Polytechnic Institute in New York State.

20. It served as the basis for the establishment of, for example, the MIT Polymer Research Center, the Industry-University Center of Robot Engineering of the University of Rhode Island, and the Applied Research Institute of North Carolina State University.

21. *Academic Science—Engineering*, 1984, No 322, pp 1-9.

22. A robot engineering and microelectronics center is being established at the University of California (in Santa Barbara), a telecommunications center is being established at Columbia University, a center for the production of composite and technological materials is being established at the University of Delaware, and a biotechnology center is being established at MIT.

23. *Science and Government Report*, 1984, No 18, pp 1-8.

24. *Chemical and Engineering News*, 1984, No 26, pp 7-11.

25. *Chemtech*, 1985, No 3, pp 142-145.

26. *Chemical and Engineering News*, 1984, No 26, pp 7-11.

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#### Review of U.S. Report on USSR in Third World

18030011h Moscow SSHA: EKONOMIKA, POLITIKA, IDEOLOGIYA in Russian No 7, Jul 87 (signed to press 18 Jun 87) pp 109-111

[Review by Ye.B. Pyadysheva of book "The Soviet Union in the Third World, 1980-1985: An Imperial Burden or Political Asset?" Report Prepared for the Committee on Foreign Affairs, U.S. House of Representatives, by the Congressional Research Service, Library of Congress, Wash., U.S. Government Printing Office, 1985, xxxiii + 502 pages]

[Text] American ruling circles and political scientists are always interested in USSR policy in the Third World countries. Researchers have concluded that Moscow is still playing close attention to the American and European regions but is also developing its foreign policy activity in other regions.

American experts on the problems of the developing countries who have analyzed the Delhi Declaration on the Principles of a Nuclear-Free and Non-Violent World have had to admit that the political philosophy of the USSR with regard to the use of negotiation and diplomacy to relieve tension in the Third World, extinguish seats of conflict, and establish friendly relations among all states is particularly appealing to the developing countries.

It is true that the Delhi declaration came as something of a surprise to many American politicians, especially those with close personal and working relationships with official circles. It was a surprise because they were anticipating something quite different, namely that the USSR would be unable, at least within the near future, to

pursue a more vigorous policy in the Third World. This is the basis of the subject of this review, the third study of this topic. The first report was published in 1977 and the second in 1981.

It must be said that this work, which is intended to serve as something like a political guide for congressmen and other politicians in the United States, is a fairly broad and detailed study citing numerous Soviet and American sources. It is wholly geared to a negative assessment of Soviet policy and the creation of a cautious or even hostile attitude toward Soviet goals and actions in the developing countries. This was apparently the "social order" of the Committee on Foreign Affairs in the 99th Congress, the members of which, including Chairman D. Faskell, were distinguished by extremely conservative, anti-Soviet views.

The authors of the book look into the future and state that the 1980's have not been a period of vigorous activity by the Soviet Union in the Third World but have, rather, been a period of estrangement from regional problems. They constantly stress, however, that the Soviet Union will continue "building up its military presence," which they call the main foundation, if not the only one, of USSR foreign policy in the Third World.

It is precisely in this vein that the authors discuss the present and future Soviet approach to Asia. After observing that, "as a European, Asian, and Pacific power, the USSR has special geopolitical, strategic, and military interests in the Asian-Pacific zone," they do not say a word about the Soviet Union's proposals which clearly indicate that it intends to attain its foreign policy objectives in this zone exclusively with the aid of peaceful political methods by developing friendly relations with all of the states in it. The authors even try to accuse Soviet policy of accelerating the change in Japan's policy line and its "move from pacifism to isolationism" and then of increasing Japan's direct involvement in Pentagon plans.

This distorted account of USSR policy in the Third World is followed by advice to the American administration to continue building up its military strength in Asia, Africa, and Latin America. The authors do not see any alternatives to the rigid pattern of confrontation. They recommend that the Third World be viewed "in the geopolitical context of the East-West conflict," in which the United States must take vigorous action and not exclude the possibility of using military force (p 421).

The authors make particularly categorical statements about Latin America. They say that the deciding factor here is "geographic fatalism" (p xxii): In other words, in view of their proximity to the United States, all of the Latin American states should adhere to the standards and traditions Washington has been cultivating in its "back yard" for the last two centuries. Anything brought

in from outside, especially anything associated with the Soviet Union, is interpreted as something alien and hostile to the Latin Americans.

The authors complain that there is no unanimity in American public opinion on the events in Nicaragua: Is the existing regime in this country threatening the vital interests of the United States in the same way as the existence of socialist Cuba? The authors say that some "observers insist on a political settlement in Central America by means of diplomatic negotiation," while others "insist on the military option with equal force and conviction" (p 398). The authors would obviously prefer the "military solution," which would be directed against people who have chosen the path of free and independent development.

In a discussion of U.S. foreign policy in the Third World, the authors say that it has come full circle since 1977. A decade ago the "Vietnam syndrome" seemed to be having a restraining effect on Washington, particularly in connection with the events in Angola and Ethiopia (p xxix). The situation changed when Reagan entered the White House. "Restraint" was rejected.

In the final section of the work the authors add a little luster to their unshakable stance by admitting that U.S. policy in the Third World has some flaws. They say that Washington does not know how to exercise its privileges, especially in the spheres of economics and technology, and is acting in accordance with a tenacious behavioral stereotype in which it first forms a strong bond with a reactionary rightwing regime and then, "with its reluctance to recognize the legality of opposition and leftwing parties, encourages these parties to establish ties with Moscow."

In an examination of the broader implications of "Soviet-American rivalry" in the Third World, the authors admit that it cannot fail to have a negative effect on the state of relations between the USSR and the United States and on the development of world affairs. They note that some Third World countries (they mention Egypt in particular) are taking advantage of this rivalry in their own interest (p 476). This is why the authors propose a "program of action." They suggest the elaboration of a "code of behavior" for the superpowers in the Third World.

This is not a new idea, but in this book it is portrayed as something quite original. The establishment of a "plateau of security in the southern hemisphere" would depend on the acceptance of the "rules of the game." Of course, this idea seems promising, but only on the surface. In reality it is just a euphemism and is intended to dignify and camouflage the imposition of conditions that are obviously unacceptable to the Soviet Union and the entire socialist community. They would be expected to "reduce the scales of their influence dramatically" in

the developing countries and thereby give the United States unlimited opportunity to take risks with the future of these countries under the cover of the "plateau of security."

On the whole, this study intended for the officials on Capitol Hill does them a disservice because it cannot help American policy in the developing countries find its way out of its current impasse.

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**Biographic Sketch of Ambassador Matlock**  
18030011i Moscow SSHA: EKONOMIKA, POLITIKA, IDEOLOGIYA in Russian No 7, Jul 87 (signed to press 18 Jun 87 p 116)

[Article by D.A.: "Jack F. Matlock—New U.S. Ambassador to the Soviet Union"]

[Text] Jack F. Matlock, the new U.S. ambassador, has taken office in Moscow.

Matlock, a career diplomat for the last 30 years, has already served three times in various positions in the U.S. Embassy in the USSR. He is succeeding Ambassador Arthur A. Hartman, who was in Moscow for more than 5 years.

Matlock was born in 1929 in Greensboro (North Carolina). In 1950 he graduated with honors from Duke University in Durham (North Carolina) and then spent 2 years at the Columbia University Russian Institute. He was awarded a master's degree in Slavic languages and literature and then taught Russian language and literature at Dartmouth College (New Hampshire) from 1953 to 1956. In 1956 Matlock entered the diplomatic service.

Matlock was a State Department staffer from 1956 to 1958. Between 1958 and 1970 he served in various capacities in U.S. embassies and consulates in Austria, the Soviet Union, the FRG, Ghana, and Tanzania. In 1971 he was appointed head of the State Department's USSR bureau. After 3 years in this office he received another appointment to the American embassy in Moscow, where he served as an envoy from 1974 to 1978. When he returned to the United States Matlock did research at Vanderbilt University in Nashville (Tennessee) in 1978 and 1979 and was then the assistant director of the Foreign Service Institute in 1979 and 1980.

In 1981 J. Matlock returned to active diplomatic service and became the acting U.S. charge d'affaires in the USSR. He was later sent to Czechoslovakia to serve there as the U.S. ambassador and remained there until 1983. When he returned to the United States he joined the staff of the National Security Council. He was a special

assistant to President Reagan and the senior director of the NSC European and Soviet bureau. He was one of the American representatives at the summit talks in Geneva and Reykjavik.

Matlock is married. His wife Rebecca is an art expert. He has four sons and a daughter. The oldest son is 32 and the youngest is 23.

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**Chronicle of U.S.-Soviet Relations (March-May 1987)**

18030011j Moscow SSHA: EKONOMIKA, POLITIKA, IDEOLOGIYA in Russian No 7, Jul 87 (signed to press 18 Jun 87) pp 124-127

[Text]

**March**

3 — Secretary A.F. Dobrynin of the CPSU Central Committee received a delegation of representatives of U.S. political, business, and social groups, headed by Senator D. Pryor, in Moscow.

In the White House press room, President R. Reagan of the United States welcomed "General Secretary Gorbachev's proposal that an agreement on medium-range nuclear missiles be concluded separately from agreements in other spheres."

8 — In a radio broadcast R. Reagan crudely attacked the USSR's fraternal assistance of the Nicaraguan people and the Soviet Union's support of democratic reforms in Afghanistan.

11 — The U.S. State Department refused to issue visas to a delegation of Soviet trade-union personnel and scientific experts wishing to attend a union conference in Washington on labor safety.

12 — An underground nuclear explosion with a force of under 20 kilotons was set off on the testing site near Semipalatinsk in the Soviet Union.

14 — The U.S. Coast Guard came to the assistance of the Soviet dry-cargo ship "Komsomolets Kirgizii" when it suffered an accident 200 miles off the coast of New Jersey because of bad weather. The crew of the Soviet ship "Komsomolets Kirgizii" and pilots of the U.S. Coast Guard were received by President Reagan in the White House.

16-18 — In line with the initiative General Secretary of the CPSU Central Committee M.S. Gorbachev put forth during his 1985 summit meetings with French President F. Mitterand in Paris and American President R. Reagan

in Geneva, a quadrilateral meeting of representatives of the USSR, the United States, Japan, and the EEC was held in the Vienna International Center to discuss the USSR proposal on international cooperation in the sphere of controlled thermonuclear synthesis.

16-20 — The fourth round of Soviet-American talks at the level of experts on the cessation of nuclear tests was held in Geneva. The results proved that the United States is still not ready to begin full-scale talks on a total nuclear test ban.

17 — U.S. Under Secretary of State for Political Affairs M. Armacost, who had taken part in the Soviet-American exchange of views on regional problems, was received by Minister of Foreign Affairs E.A. Shevardnadze. Armacost and Deputy Assistant to the President for National Security Affairs P. Rodman were received by A.F. Dobrynin.

18 — The latest session of the Soviet-American Standing Consultative Commission to aid in the implementation of the provisions and goals of the USSR-U.S. agreements on strategic arms limitation and on measures to reduce the danger of nuclear war began in Geneva.

A nuclear device was set off in Nevada for the third time since the beginning of 1987.

19 — Two underground nuclear explosions with a force of under 20 kilotons were set off in Perm Oblast in the USSR in the national economic interest.

20 — At a White House press conference R. Reagan admitted that Pentagon efforts to pave the way for the testing and deployment of components of the "Star Wars" program in space lie behind the plans for the so-called "broad interpretation" of the Soviet-American ABM Treaty.

The All-Union Scientific Society of Ophthalmologists requested the U.S. authorities to give Soviet specialists a chance to examine Leonard Peltier, one of the leaders of the American Indians, in prison and to treat him if necessary.

25 — A published statement by a USSR Ministry of Foreign Affairs spokesman says: "The United States is stubbornly trying to perpetuate the fratricidal war in Afghanistan.... The prospects of agreement and the success of the policy of national conciliation in Afghanistan apparently conflict with the plans of the U.S. administration."

26 — Commenting on the work of the group on medium-range nuclear arms, which continued to draft an agreement on medium-range missiles within the framework of the Soviet-American talks on nuclear and space arms in Geneva, a USSR Ministry of Foreign Affairs spokesman said in Moscow that the U.S. delegation had made a request for the conversion of the Pershing II missiles into

shorter-range missiles, which would essentially be a pretext for the preservation of its entire medium-range ballistic missile potential in Europe, and that the United States was insisting on its right to not destroy the land-based cruise missiles in Europe but to rebase them on ships instead.

A memorandum transmitted to the U.S. State Department by the USSR Embassy in Washington in response to the allegation that radioactive fallout from a nuclear test in the Soviet Union on 26 February 1987 had supposedly crossed the Soviet border stresses that a thorough investigation by competent Soviet organizations had confirmed the complete absence of any kind of radioactive emissions.

#### April

3, 17 — Underground nuclear explosions with a force of from 20 to 150 kilotons were set off on the test site near Semipalatinsk in the USSR.

6 — Chairman A.A. Gromyko of the USSR Supreme Soviet Presidium received U.S. Ambassador Extraordinary and Plenipotentiary Jack F. Matlock, who presented his credentials.

8 — A.F. Dobrynin received Ambassador J. Matlock at his request.

9 — The USSR Ministry of Foreign Affairs held a press conference in Moscow on "The Use of Espionage Equipment by the American Special Services Against Soviet Citizens and Establishments in the United States."

10 — Speaking in Prague, General Secretary of the CPSU Central Committee M.S. Gorbachev proposed that the reduction and subsequent elimination of missiles on the European continent with a range of from 500 to 1,000 kilometers be discussed without connecting this matter with the proceedings and outcome of the talks on medium-range missiles. He also reported that the Soviet Union has stopped producing chemical weapons, that it has no chemical weapons outside its boundaries, and that an enterprise is being built in the USSR specifically for the purpose of destroying chemical weapon stockpiles with the aim of the quick completion of the chemical disarmament process after the appropriate international convention has been signed.

The U.S. State Department did not let a representative of the USSR Consulate General go to Vancouver, Washington, where an exhibit is being held to commemorate the first non-stop flight from Moscow to America over the North Pole.

A press conference was held in Washington in the USSR Embassy for American and foreign journalists to report the continued use of listening devices by the American special services in Soviet offices in Washington and other cities.

11 — A message from the Warsaw Pact states to the NATO countries, proposing a mutual moratorium on the military expenditures of the states of both alliances for a year or two, was published.

13-15 — American Secretary of State G. Shultz visited the Soviet Union. He had long conversations with Chairman N.I. Ryzhkov of the USSR Council of Ministers and USSR Minister of Foreign Affairs E.A. Shevardnadze. Minister Shevardnadze and Secretary Shultz signed a Soviet-U.S. agreement on cooperation in the study and use of outer space for peaceful purposes, envisaging joint projects by Soviet and American scientists in the study of the solar system, space astronomy and astrophysics, earth sciences, solar-terrestrial communication physics, space biology and medicine.

13-18 — A delegation from the House of Representatives of the U.S. Congress, headed by Speaker of the House J. Wright, made an official visit to the Soviet Union as the guests of the USSR Supreme Soviet.

14 — M.S. Gorbachev received G. Shultz in the Kremlin. During their conversation M.S. Gorbachev expressed his willingness to include a Soviet pledge to completely eliminate all operational and tactical missiles in Europe within a relatively short and precisely defined period of time in the agreement on medium-range missiles. The Soviet side's willingness to eliminate battlefield tactical missiles was also expressed. M.S. Gorbachev said that the Soviet side will agree to ABM research, but only within the confines of laboratories. He explained to Shultz that the Soviet Union uses this term to refer to research conducted on earth—in institutes, on testing sites, and in plants. M.S. Gorbachev proposed the elaboration of the central provisions on the following matters:

The 50-percent reduction of strategic offensive arms by the Soviet Union and the United States—in combination with measures to strengthen the ABM treaty framework—within the next 5 years, so that each side will have no more than 1,600 strategic delivery vehicles (ICBM's, SLBM's, and heavy bombers) and no more than 6,000 nuclear projectiles on them by the end of this period;

A fundamental agreement on the reinforcement of the ABM treaty framework, envisaging a mutual pledge by the sides not to withdraw from the treaty in the next 10 years and to observe it to the letter;

The organization of full-scale talks with the United States on the prohibition of all nuclear tests, within the framework of which the sides could also agree on a formula permitting the ratification of the so-called "threshold" agreements of 1974 and 1976 and arrange for a substantial decrease in the force and number of nuclear explosions.

15 — M.S. Gorbachev had a meeting with the U.S. congressional delegation in the Kremlin.

16 — The protocol of the 8th session of the Soviet-American Commission on Cooperation in Public Health was signed in Washington. An agreement was reached on the resumption of Soviet-American cooperation in oncology.

18, 23, 30 — Underground nuclear tests were conducted on the American test site in Nevada.

19 — In a radio broadcast wholly devoted to the state of Soviet-American relations and, in particular, the results of G. Shultz' trip to Moscow, R. Reagan expressed the hope that the process would continue to progress and that it would be possible to conclude a "historic agreement on East-West relations" at the summit meeting.

20-21 — A delegation from the international Society for a Better World, headed by its chairman, R. Turner, the president of the Turner Broadcasting System, an American television company, was in Moscow. The delegation was received by Secretary of the CPSU Central Committee and candidate for membership in the Politburo A.N. Yakovlev and Secretary of the CPSU Central Committee A.F. Dobrynin.

21 — War Criminal K. Linnas, who committed atrocities on the territory occupied by the Hitler's forces in Estonia during World War II, was deported from the United States to the Soviet Union.

21-28 — A meeting of 14 retired generals and admirals from the USSR and the United States was organized in Washington by the Notre Dame University International Peace Research Institute to discuss the military policies of the two powers. The generals and admirals underscored the need to stop all nuclear tests and to eliminate all vehicles for the delivery of nuclear systems.

22 — The U.S. State Department refused to issue entrance visas to two prominent APN journalists, V. Simonov and B. Korolev.

23 — The latest round of talks in the group on medium-range nuclear arms in Geneva. The heads of the delegations in the group, Ambassador at Large A.A. Obukhov and Ambassador M. Glitman, had a meeting.

25 — An exhibit of works by Andrew and James Wyeth, members of the Wyeth-Newell dynasty of American artists, opened in Moscow. It was made possible by the USSR-U.S. agreement concluded in Geneva in November 1985.

27 — At a plenary session of the group on medium-range nuclear arms the USSR delegation submitted the Soviet draft of the "Treaty Between the USSR and the United States on the Elimination of Soviet and American Medium-Range Missiles in Europe and on Other Measures To

Limit and Reduce the Medium-Range Missiles of the USSR and the United States," along with the agreed statements and common understandings regarding the treaty.

#### May

5 — The 8th round of the Soviet-American talks on nuclear and space arms began in the Swiss capital.

5 — Two days of Soviet-American talks on nuclear threat reduction centers came to an end in Geneva. The jointly prepared draft agreement will be submitted to the governments of both countries for ratification.

A reception was held in the USSR Embassy in the United States to celebrate the publication of the collected speeches and statements of M.S. Gorbachev, "For a Better World," by the American Richardson and Stairman publishing firm.

6 — An underground nuclear explosion with a force of under 20 kilotons was set off on the test site near Semipalatinsk in the USSR.

7 — Soviet and foreign journalists at a briefing in Moscow were informed that analyses of atmospheric aerosol samples collected outside the territory of the United States after the nuclear tests conducted in Nevada on 3 and 11 February and 18 March 1987 attest to the emission of radioactive substances outside the United States.

8 — Washington's intention to satisfy Pakistan's request for AWACS planes was described as another sign of U.S. neoglobalist ambitions in a published statement by a USSR Ministry of Foreign Affairs spokesman.

11 — A.F. Dobrynin received co-Chairman D. Andreas of the American-Soviet Trade and Economic Council (ASTEC) and council President J. Giffen at their request.

14 — A briefing was held in the press room of the USSR Ministry of Foreign Affairs to direct the attention of journalists to R. Reagan's statement that the Soviet Union is supposedly testing antisatellite systems. They were told that the USSR had announced a unilateral moratorium on these tests back in 1983, that it has not conducted such tests since that time, and that it has consistently advocated their prohibition.

16 — An exhibit of porcelain sculpture from the American Beam Studio opened in Moscow. It was organized with the assistance of American businessman Armand Hammer.

18-29 — The latest round of the Soviet-American talks by experts on the cessation of nuclear tests was held in Geneva.

21 — An agreement between TASS and Mead Data Central, the owner of "Nexus," the world's largest bank of news items, newspaper articles, and commercial information, was concluded in New York.

22 — The violation of the state border of the USSR on 17 and 21 May near Avachinskiy Bay on the Kamchatka peninsula by the U.S. Navy's nuclear cruiser "Arkansas" was the subject of a vehement protest conveyed to the U.S. Government.

24 — Leningrad's "Dixieland" group began a tour with a concert in Sacramento (California). This is the first time a Soviet jazz group has toured the United States.

26 — Addressing a Romanian-Soviet friendship rally in Bucharest, M.S. Gorbachev described the tactical nuclear weapon as a "dual-purpose" weapon in most respects—that is, a weapon designed to use conventional and nuclear ammunition. For this reason, he said, "it would be logical to discuss this weapon at the same time as other conventional arms."

27 — A statement by a USSR Ministry of Foreign Affairs spokesman expressed serious worries about the United States' use of the escalation of tension in the Persian Gulf to build up its own military presence there.

28-29 — A meeting of the Political Consultative Committee of the Warsaw Pact on Friendship, Cooperation and Mutual Assistance was held in Berlin.

A document "On the Military Doctrine of the Warsaw Pact States" was signed and a communique was approved at the final session.

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EKONOMIKA, POLITIKA, IDEOLOGIYA No  
7, July 1987**

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**Publication Data**

*18030011l Moscow SSHA: EKONOMIKA, POLITIKA, IDEOLOGIYA in Russian No 7, Jul 87 (signed to press 18 Jun 87)*

English title: USA: ECONOMICS, POLITICS, IDEOLOGY

Russian title: SSHA: EKONOMIKA, POLITIKA, IDEOLOGIYA

Editor: V.M. Berezhkov

Publishing House: Izdatelstvo Nauka

Place of publication: Moscow

Date of publication: July 1987

Signed to press: 18 June 1987

Copies: 31,000

COPYRIGHT: Izdatelstvo "Nauka", "SShA—ekonomika, politika, ideologiya", 1987

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